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1996 ANNUAL REPORT



Office of the Provincial Auditor



*ACCOUNTING
ACCOUNTABILITY
VALUE FOR MONEY*



To the Honourable Speaker of the Legislative Assembly of Ontario:

I have the honour to transmit herewith my Annual Report to be laid before the Assembly in accordance with the provisions of section 12(1) of the *Audit Act*.

Erik Peters, FCA
Provincial Auditor

October 15, 1996

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CHAPTER ONE

Overview

IMPROVING INFORMATION FOR DECISION MAKING

GOOD DECISIONS REQUIRE GOOD INFORMATION

In my first *Annual Report* in 1993 and in my subsequent *Annual Reports*, I have stressed the need for decision-makers to have reliable financial and operational information on which to base their decisions.

This is all the more important in today's environment given the government's stated intention of balancing the budget and reducing the cost and size of government through restructuring and changing the way services are delivered. The difficult decisions that need to be made to cut out waste and duplication and find new ways to provide services more efficiently must be based on sound financial and operational information.

I have urged the government to pursue the following formula which, if achieved, would result in better information for decision making and ultimately better value for money for the taxpayer:

Better accounting for the government's revenues, expenditures and financial affairs
plus
Better accountability for the government's performance in achieving legislated objectives
equals
Better value for the taxpayers' money.

ACCOUNTING AND FINANCIAL INFORMATION

I am pleased to report that my auditor's report to the Legislative Assembly on the Financial Statements of Ontario for the fiscal year ended March 31, 1996 is clear of any qualifications or reservations.

This is the third consecutive year that the province's Financial Statements have been prepared in accordance with accounting principles recommended for governments by the Public Sector Accounting and Auditing Board (PSAAB) of the Canadian Institute of Chartered Accountants.

In my 1994 and 1995 *Annual Reports* I expressed concern that the government had adopted PSAAB accounting principles for its Financial Statements but had used a different basis of accounting for the *Budget*. Consequently, the financial discipline and the principle of substance over form used in the Financial Statements had not been reflected in the *Budget*. Additionally, I expressed concern that the basis of accounting used in the *Budget* had caused the deficit as reported in the *Budget* to be substantially understated.

In July 1995, shortly after the election of the new government, the Minister of Finance acknowledged my concern and stated that:

The provincial Budget and the Public Accounts are reported on two different sets of accounting principles. The Provincial Auditor has signed the most recent Public Accounts, but has repeatedly commented on the way the Budget is presented. These different presentations create confusion.

At the same time the Minister also announced the establishment of the Ontario Financial Review Commission and stated that the Commission would look at such issues as the consistency of the government's financial reporting. In its November 1995 report to the Minister of Finance, the Commission recommended "that government adopt PSAAB standards for the *Budget*, related spending authority and updates on the fiscal situation."

The government accepted this recommendation and used PSAAB accounting rules to prepare the fiscal plans included in both the 1995 Fiscal and Economic Statement issued in late November 1995 and the May 1996 *Ontario Budget*. With the adoption of the PSAAB basis of accounting in both the *Budget* and the province's Financial Statements, the Legislature has a much clearer and complete picture of the government's overall fiscal plan and will be able to more readily compare actual financial results to planned results.

In addition to its recommendation to adopt PSAAB standards for the *Budget*, the Commission made 14 recommendations dealing with other financial reporting and accounting issues. Based on the government's response to these 15 recommendations as outlined in the 1996 *Budget*, I am pleased to report that eight recommendations have been implemented and the other seven are in the process of being implemented.

SIGNIFICANT PROGRESS HAS BEEN MADE

As discussed more fully in Chapter Five of this report, and as indicated in the following chart, significant progress has been made over the last few years in enhancing the quality of financial information available to the Legislature.

Fiscal Year	Improvements Made
1993/94	The adoption of PSAAB for the province's Financial Statements has resulted in improved disclosure of the full extent of the government's financial affairs and resources.
1995/96	The inappropriate practices of accounting in the <i>Budget</i> for capital grants repayable from future appropriations as loans, treating significant non-arms-length sales of government assets as revenue and recording proceeds from borrowings of a Crown corporation as revenue have all been discontinued.
1995/96	The adoption of PSAAB accounting rules for the <i>Budget</i> provides for a more complete fiscal plan and allows for a realistic comparison between planned and actual financial performance.
1995/96	The government has committed to presenting an Annual Financial Report which will enable the Legislature and the public to better understand and evaluate the province's financial performance, activities and condition.

Notwithstanding the progress that has been made, there are still areas where improvement is needed. I noted that one major agency of the Crown had failed to meet its statutory financial reporting requirements, did not have adequate supporting documentation for financial transactions available and had not prepared monthly bank reconciliations on a timely basis. Another significant agency had not prepared financial statements in time for inclusion in Volume 2 of the *Public Accounts*. As well, all significant financial issues need to be resolved and communicated by the Ministry of Finance prior to the fiscal year-end to facilitate the implementation of the Ontario Financial Review Commission's recommendation regarding the earlier presentation of the Financial Statements of the province.

ACCOUNTABILITY

Chapter Two of this Report provides commentary on several encouraging steps being taken toward better accountability to the Legislature, and therefore the taxpayers, for performance and results by ministries, agencies and the government as a whole. These steps include implementation of recommendations from the Ontario Financial Review Commission, the publication of Ontario's Business Plans and potential improvements to the estimates review process by the legislators. The chapter also contains comments on governance, on the proposed amendments to the *Audit Act* and on internal audit, all components of an accountability framework.

While these steps toward better accountability are being taken, the government has acknowledged that much remains to be done to achieve the level of accountability for performance and results that is necessary for the effective management of government, its finances and spending, and its resources. Sound accountability for performance and results would also give the legisla-

tors the tools to better determine which government programs should continue as they are and which should be modified or discontinued. These determinations are fundamental to reducing spending, deficits and debt, and enhancing public confidence in the quality of government.

VALUE FOR MONEY AUDIT RECOMMENDATIONS

THE AUDITING AND REPORTING PROCESS

Because of the size and complexity of the province's operations and administration, it is impossible to audit each program every year. Instead, the Office conducts selected audits in a cycle, so that all major programs are considered for review every five years. The audits covered by this *Annual Report* were selected by the Office's senior management based on criteria such as financial impact, significance to the Legislature, public sensitivity or safety, and past audit reports.

Before beginning an audit, office staff meet with auditee representatives to discuss the focus of the audit in general terms. During the audit, office staff maintain an ongoing dialogue with the auditee to review the progress of the audit and ensure open lines of communication. After the audit staff conclude their on-site work, a draft report is prepared, reviewed internally and discussed with the auditee. A management response to our recommendations is received and incorporated into the final draft report. The Provincial Auditor and senior office staff meet with the Deputy Minister or agency head to discuss the final draft report, and the auditee is given an opportunity to finalize the responses. Those responses are provided with the report sections included in this *Annual Report*. The Office is pleased to acknowledge the active cooperation of the staff of audited ministries and agencies throughout this year's process.

Under section 12 of the *Audit Act*, the Provincial Auditor is required to report annually to the Speaker of the Legislative Assembly.

Immediately prior to the tabling of the *Annual Report*, separate and simultaneous lockups are arranged for members of the Assembly and their research staff, representatives of the media, and representatives of audited ministries and agencies. When the lockups conclude, the Provincial Auditor is available to answer the media's questions.

Each year, the Standing Committee on Public Accounts selects sections of the Provincial Auditor's *Annual Report* for review and calls upon representatives of the audited ministries to attend as witnesses.

SUMMARY OF RECOMMENDATIONS

The following are summaries of the 18 audit reports on value for money audits contained in Chapter Three of this *Annual Report*. The auditees' responses in Chapter Three indicate that action to implement many of our recommendations is planned or has already been taken.

3.01 Ministry of Agriculture, Food and Rural Affairs Agriculture Division

The Agriculture Division fosters competitive agriculture, helps maintain the environment and supports rural community development through a network of field offices which provide for the transfer of information and technology to the rural and agricultural communities. For the 1995/96 fiscal year, estimated expenditures for the Agriculture Division totalled \$50.5 million.

We assessed whether resources were managed with due regard for economy and efficiency and whether satisfactory procedures were in place to measure and report on the effectiveness of service delivery. We recommended that the Ministry:

- reduce the number of field office locations and streamline service delivery to improve cost effectiveness;
- clarify staff roles and responsibilities in order to improve program and service delivery; and
- implement adequate procedures to measure and report on the effectiveness of field service activities.

3.02 Ministry of Agriculture, Food and Rural Affairs Education, Research and Laboratory Services

The Ministry operates three colleges of agricultural technology which perform agricultural research and provide diploma and continuing education. The Ministry's laboratories provide agricultural and veterinary analysis, testing and diagnostic services. The Ministry also provides funding to the University of Guelph for agricultural research and education. For the 1995/96 fiscal year, program expenditures totalled \$80.1 million.

We assessed whether program resources were managed with due regard for economy and efficiency, and whether satisfactory procedures were used to measure and report on the effectiveness of the program. We recommended that the Ministry:

- assess the economic feasibility of maintaining the agricultural college system in its present form because, due to low enrolments, per-student costs for ministry colleges were higher than those for community colleges;
- perform cost/benefit analyses to justify research proposals and establish procedures to determine whether the anticipated benefits of completed research projects are actually achieved; and
- review the laboratory fee structure and, where appropriate, charge fees to recover the cost of providing laboratory services.

3.03 Ministry of Community and Social Services Capital Expenditures

The Ministry's capital expenditures consist primarily of capital grants to municipalities and transfer payment agencies for the renovation and construction of facilities used in the delivery of ministry programs. Capital expenditures for the 1994/95 and 1995/96 fiscal years totalled \$72 million and \$16.2 million respectively.

Our audit assessed whether procedures for administering capital grants were adequate to ensure that projects were funded only when necessary and in accordance with established priorities and whether the reasonableness of the amounts funded was determined.

We found that improvements were required to ensure that:

- project documentation includes identification and assessments of alternatives which could meet program needs more economically;
- agencies do not bypass the Ministry's capital expenditure planning and priority setting process by funding capital projects from surplus or incremental ministry operating funding; and
- grant approvals are based on reasonable cost estimates and the reasonableness of the actual costs claimed to have been incurred is assessed.

3.04 Ministry of Community and Social Services Provincial Allowances and Benefits Program

The purpose of the Provincial Allowances and Benefits Program (commonly known as Family Benefits) is to provide eligible individuals with a monthly basic and shelter allowance and benefits such as prescribed drugs, dental care, eyeglasses and emergency home repairs. For the 1995/96 fiscal year, the Ministry spent approximately \$3.4 billion on Family Benefits. The program is delivered by approximately 850 caseworkers working out of 93 local offices which report to 12 area offices.

Our audit assessed whether the Ministry's administrative procedures were adequate to ensure that legislative requirements and program policies and procedures were complied with and whether the program was delivered with due regard for economy and efficiency.

We found that the administration of the program needed to be improved in order to ensure that:

- all necessary recipient information is received and assessed by caseworkers so that only those new applicants and ongoing recipients who are eligible receive Family Benefits and that those benefits are in the appropriate amounts;
- where possible, information provided by applicants is independently confirmed;
- adequate documentation is maintained to demonstrate that reasonable efforts are made by sole support parents to pursue spousal and child support; and
- overpayments are minimized and recovery processes are initiated on a timely basis.

3.05 Ministry of Community and Social Services Supportive Services

The Supportive Services Program provides transfer payments under the *Developmental Services Act* and the *Child and Family Services Act* to approximately 350 community-based, non-profit agencies. These agencies in turn provide a wide range of supportive services to approximately 44,000 people with developmental disabilities. For the 1995/96 fiscal year, the Ministry's transfer payments for this program totalled \$387 million.

Our audit assessed whether the Ministry's administrative procedures were adequate to ensure that transfer payments to agencies were reasonable and satisfactorily controlled and whether the quality of services provided was monitored and assessed.

We found that the Ministry's administrative procedures did not adequately ensure that transfer payments to agencies were reasonable, or that the quality of services purchased were monitored

to establish whether the Ministry was receiving value for money spent. Specifically, the Ministry needed to take corrective action to ensure that:

- funding decisions are based on sufficiently detailed, relevant and timely information from the agencies;
- the reasonableness of the cost of similar programs funded either within or between different area offices is analyzed and assessed;
- agencies' program surpluses are identified and recovered on a timely basis; and
- acceptable standards for the levels and quality of services provided are defined and subsequently monitored and assessed.

3.06 Ministry of Consumer and Commercial Relations Liquor Licence Board of Ontario

The Liquor Licence Board of Ontario administers and enforces the *Liquor Licence Act* and its Regulations. Its primary functions include the collection of revenues from fees, licences and permits, and the licensing and inspection of manufacturers and establishments that sell alcoholic beverages. For the 1995/96 fiscal year, the Board had revenues and expenditures of approximately \$530 million and \$8.5 million respectively.

We primarily assessed whether the Board had adequate controls over revenues and whether there were adequate procedures in place to ensure that licensees comply with the *Liquor Licence Act* and its Regulations. We concluded that:

- on an overall basis, controls over revenues received at the Board were satisfactory; and
- procedures for ensuring that licensees comply with the *Liquor Licence Act* and its Regulations were generally satisfactory.

3.07 Ministry of Education and Training Colleges of Applied Arts and Technology

Ontario's 25 colleges of applied arts and technology provide postsecondary programs, continuing education and vocational training on a full- and part-time basis to more than 700,000 students annually through 90 campuses located throughout the province. Postsecondary programs, the primary focus of our audit, offer employment-focused education and skills training leading to certificates or diplomas in the areas of applied arts, business, health, science and technology. In the 1995/96 fiscal year, colleges received about \$809 million in operating grants for postsecondary education from the Ministry.

We principally assessed the systems and procedures in place to hold the Ministry and colleges accountable for achieving legislated and stated goals and objectives; for delivering quality postsecondary programs economically, efficiently and in compliance with legislation; and for monitoring the financial condition of colleges. Our most significant recommendations were that the Ministry needed to:

- provide stronger leadership and clearer goals to ensure that colleges meet community needs while also working together as a system to meet provincial goals as economically and efficiently as possible;

-
- require more meaningful measurement and reporting by individual colleges on their operational and financial performance and use that information to improve and report on the results achieved by the college system; and
 - accelerate the establishment of an independent, objective and effective process to ensure that college postsecondary programs meet acceptable standards for program quality at reasonable cost.

3.08 Ministry of Education and Training Ontario Training and Adjustment Board

The Ontario Training and Adjustment Board was created in 1993 to coordinate and streamline Ontario's training and adjustment programs and make them more accessible to all Ontarians. Prior to the Board's establishment, approximately 25 such programs were administered by five ministries. In the 1995/96 fiscal year, the Board's expenditures totalled about \$442 million. Subsequent to the completion of our audit, the Board was dissolved and responsibility for its programs and policy work was transferred to the Ministry of Education and Training.

Our audit objectives included assessing whether there were adequate systems and procedures to deliver training programs and whether services were designed to meet labour market and participant needs economically, efficiently and in compliance with requirements. Our most significant recommendations were for the Ministry to:

- take action to identify and eliminate areas of potential duplication of programs, services and administration between the province and the federal government;
- complete arrangements to ensure that timely, reliable labour market information is available and is used to make effective program and resource allocation decisions; and
- revise funding arrangements with its many delivery agents to make use of more results-based approaches and to achieve savings of as much as \$17 million annually.

3.09 Ministry of Environment and Energy Environmental Sciences and Standards Division

The Environmental Sciences and Standards Division is responsible for using its scientific and technical expertise to set standards, monitor pollution and develop programs to assist the Ministry in fulfilling its mandate of protecting the quality of the natural environment to safeguard the ecosystem and human health. For the 1995/96 fiscal year, the Division had over 600 staff and total expenditures of \$55 million.

We assessed whether the Ministry had satisfactory procedures in place to measure and report on the performance of the Division and to ensure that services provided were being delivered with due regard for economy and efficiency. In order to properly safeguard the ecosystem and human health, we recommended that the Ministry:

- update its standards for air pollutants;
- improve its monitoring efforts in the areas of air, water and hazardous waste materials; and
- develop a more pro-active and systematic approach to protecting and managing ground water.

3.10 Ministry of Finance Corporations Tax

All corporations with a permanent establishment in Ontario are subject to the *Corporations Tax Act*. The Ministry of Finance's Corporations Tax Branch has primary responsibility for the administration and enforcement of the Act. For the 1995/96 fiscal year, the Branch's expenditures were \$22.5 million and the Ministry of Finance collected \$5.4 billion in corporations tax.

We assessed the adequacy of the Ministry's tax collection procedures and made the following observations.

- Additional research needs to be conducted on those areas contributing to the tax gap, and the Ministry needs to focus its enforcement efforts on those areas in order to reduce the tax gap.
- The audit coverage of small corporations is extremely low and needs to be significantly increased, primarily through additional desk audits.
- Millions of dollars of tax revenue have likely been foregone due to a significant decrease in the number of desk audits being done and due to delays in processing Ontario reassessments relating to federal assessment and reassessment notices, which has resulted in returns becoming statute barred.
- Ministry procedures were adequate to ensure corporations tax payments received were being deposited promptly and credited to the appropriate taxpayers' accounts and that corporate tax returns were being processed accurately.

3.11 Ministry of Health Alternate Payment Program

The Alternate Payment Program was introduced in the late 1960s to fund health care providers for medical services which were seen as not being adequately addressed by the traditional fee-for-service system. For the 1995/96 fiscal year, payments under the Program totalled approximately \$126 million, with \$85.5 million relating to payments made under academic hospital agreements and \$40.5 million for single medical service agreements.

We assessed the adequacy of systems and procedures in place to administer agreements and the adequacy of procedures to measure and report on program effectiveness. We found that action is required to improve the administration of the Alternate Payment Program, which lacks adequate information systems and procedures to control and monitor the use of ministry funding. Specifically, the Ministry needs to:

- set measurable service expectations and monitor performance against them;
- develop data collection systems for both the clinical and non-clinical services provided under the agreements for better health care management and planning; and
- perform timely reconciliations of the recipients' financial statements or service data to the funding provided to ensure that the expected value is received.

Procedures to measure and report on the effectiveness of the Program need to be developed.

3.12 Ministry of Health Assistive Device Services Activity

The Ministry's Assistive Devices Branch administers the Assistive Device Services Activity, which consists of the Assistive Devices and Home Oxygen Programs. The Activity provides financial assistance to Ontario residents who have long-term physical disabilities for the purchase of selected basic personalized assistive devices (for example, wheelchairs, hearing aids, incontinence supplies and home oxygen). For the 1995/96 fiscal year, assistance was provided to 135,000 individuals through transfer payments totalling \$135.8 million.

We assessed whether the Ministry had adequate procedures in place to: measure and report on the effectiveness of the Activity; approve, process and pay claims; and ensure that resources were managed with due regard for economy and efficiency.

We found that, in general, the Ministry had adequate procedures in place to measure and report on the effectiveness of the Activity in providing financial assistance appropriate for individuals' needs and to ensure that claims were properly approved, processed and paid. However, to ensure that expenditures are more effectively contained, the Ministry needs to:

- periodically review the basis of funding and whether funding levels should be modified;
- ensure that appropriate criteria are used to determine the eligibility of individuals;
- implement guidelines for ensuring the independent determination of eligibility for home oxygen benefits; and
- negotiate better prices with vendors providing home oxygen.

3.13 Ministry of Health Drug Benefits Program

The Drug Programs Branch administers the Drug Benefits Program, which includes the Ontario Drug Benefit Program, the Trillium Drug Program and the Special Drugs Program. For the 1995/96 fiscal year, these programs had total expenditures of \$1.4 billion, of which \$321 million was recovered from the Ministry of Community and Social Services for drug benefits paid on behalf of social assistance recipients.

We assessed the adequacy of the Ministry's procedures to: measure and report on the effectiveness of the Drug Benefits Program; ensure compliance with legislation and assess whether its policies and procedures for the approval, processing and payment of claims were adequate and being followed; and ensure that resources were managed with due regard for economy and efficiency.

We found that the Drug Benefits Program had adequate procedures to ensure compliance with legislation and that claims were properly approved. However, the Ministry needs to give greater consideration to both the cost and utilization of drugs covered. In particular, further efforts are needed to properly monitor, assess and report on the effectiveness of the Program. This includes more effectively addressing inappropriate prescribing. The Ministry also needs to:

- regularly review the drugs and products covered by the Program to ensure that they are cost-effective and consistent with the Program's objectives;
- examine alternatives which would permit the implementation of price reductions and the addition of new drugs or products to the Formulary on a more timely basis;

- compare the prices it pays for drugs to those paid by other jurisdictions to enable it to more effectively negotiate prices with drug manufacturers;
- better control costs for limited-use drugs and nutrition products by ensuring that they are covered only for individuals who meet established eligibility criteria; and
- improve its inspection function in order to better identify and follow up on incorrect or false billings submitted to the Program.

3.14 Ministry of Health Independent Health Facilities

The *Independent Health Facilities Act* specifies the licensing, funding and quality assurance requirements of facilities offering diagnostic services, such as x-rays and ultrasound, and ambulatory services, such as cataract surgery and abortions. For the 1995/96 fiscal year, technical fee payments to diagnostic and ambulatory facilities were approximately \$148 million and \$9 million respectively.

The College of Physicians and Surgeons of Ontario has been assigned the responsibility for developing standards of practice and for assessing the quality of the services delivered by these facilities. For the 1995/96 fiscal year, the Ministry paid the College approximately \$721,000 for this function.

We assessed whether the Ministry had adequate procedures in place to ensure compliance with the legislative requirements for the licensing, funding and monitoring of independent health facilities as well as the procedures to measure and report on the effectiveness of the Independent Health Facilities Program.

We found that the Ministry generally had adequate procedures to ensure compliance with legislative requirements for licensing and funding independent health facilities. However, the Ministry needs to make improvements in a number of areas, including ensuring that all facilities are assessed before renewing their licences. In addition, the evaluation of facilities based on assessments by the College of Physicians and Surgeons and the follow-up of identified problems require improvement. Procedures to measure the effectiveness of the program have yet to be developed.

The Ministry's Provider Services Branch's business plan, finalized in January 1996, recognized a number of the issues we have identified, including the need for ongoing evaluation of the program.

3.15 Ministry of Health Whitby Mental Health Centre

The Whitby Mental Health Centre is one of 10 provincial psychiatric hospitals operated by the Ministry of Health. The Centre's goal is to provide "assessment, consultation, treatment and rehabilitation to individuals suffering from serious mental illness, to achieve the earliest community reintegration at the most independent level." In the 1995/96 fiscal year, the Centre incurred expenditures of \$43.7 million.

We assessed whether the Centre's goal was clearly defined, its performance monitored and evaluated, and the results reported. We also assessed whether mechanisms were in place to monitor whether applicable legislation, policies and procedures were being followed for the

admission, treatment and discharge of patients, and whether resources were being managed with due regard for economy and efficiency.

We found that the Centre had many methods in place to ensure that quality care was being provided to patients and that patients were generally satisfied with the care provided to them. However, the Centre needs to:

- better ensure that individuals in the area served by the Centre have access to its services when required; and
- better monitor compliance with consent-to-treatment policies and legislation.

While services and assets were generally managed with due regard for economy and efficiency, the Ministry needed to reconsider its decision to postpone indefinitely copayments for accommodation.

3.16 Ministry of Labour Occupational Health and Safety Program

The Occupational Health and Safety Program operates under the authority of the *Occupational Health and Safety Act* and Regulations. The Program is primarily responsible for inspection of workplaces for compliance with the Act and Regulations, investigation of accidents and consultation with employers. The Ministry estimated that in 1995 about 300,000 workplaces and 4.6 million workers were covered by the Act. For the 1995/96 fiscal year, expenditures for the Program totalled approximately \$38.2 million.

We assessed whether the Ministry had adequate procedures in place to measure and report on the effectiveness of the Program, and to administer and enforce the *Occupational Health and Safety Act* and Regulations economically and efficiently. We recommended that the Ministry :

- develop an overall framework and coordinate the delivery of its program with those of other health and safety delivery organizations to ensure efficient use of resources;
- establish a system of risk assessment to identify and target high risk workplaces for inspections and ensure that significant problems identified by inspectors are promptly followed up; and
- set priorities and monitor the time spent on developing and amending regulations.

3.17 Ontario Realty Corporation Property Management Division

The Property Management Division of the Ontario Realty Corporation (ORC) is responsible for providing property management and accommodation services for most of the Ontario government's 80,000 employees. Division expenditures excluding lease payments to private sector landlords totalled \$191 million for the 1995/96 fiscal year.

Our audit assessed whether the Division had adequate procedures in place to ensure that the real property it is responsible for was being managed with due regard for economy and efficiency and was being adequately maintained. We recommended that:

- the Division implement an integrated management information system to facilitate the monitoring of financial and operating data on a building-by-building basis and to meet the business information needs for sound property management if the direct delivery of property management services continues to be a part of its mandate; and

-
- ORC offer tenants sufficient incentives to encourage them to minimize the space they occupy and that it base accommodation funding on the amount of space each tenant is entitled to rather than the amount of space currently being occupied to ensure the proposed accommodation chargeback system optimizes space utilization and does not perpetuate inequities.

3.18 Ontario Transportation Capital Corporation Highway 407 Central Project

Highway 407 Central is being built as a multi-lane, fully electronic toll highway extending 69 kilometres across the top of Metropolitan Toronto.

Requests for proposals to construct Highway 407 Central in two phases by 1998 were issued in September 1993 to two Ontario-based project management, engineering and construction consortia. In May, 1994 the Ontario Transportation Capital Corporation (OTCC) entered into an agreement with the winning consortium to design and build Highway 407 Central, without the tolling system or operations and maintenance components, for a guaranteed maximum price of approximately \$930 million. OTCC had decided to award the tolling system component to the group of tolling companies within the other consortium. The value of the tolling contracts as of March 1996 was approximately \$72 million. The operations and maintenance contract is currently being negotiated with a company owned by the winning consortium.

The objectives of our audit were to assess whether:

- a fair and competitive selection process was followed and adequately documented in awarding the major Highway 407 Central contracts; and
- there has been due regard for economy and efficiency in the planning, development and implementation of the Highway 407 Central project.

We found that the selection of the winning submissions for the design and construction of the road and tolling components of the project followed a pre-determined process and the proposals were evaluated by experienced evaluation teams using pre-determined evaluation criteria.

We also found that a number of the objectives of the request for proposal were achieved or are in progress. However, there are areas the Ministry of Transportation needs to consider for improvement when undertaking projects of a similar nature in the future. These areas include:

- the minimum number of bidders and design and construction alternatives needed to provide an adequate basis for decision-making and the level of specific design criteria that should be provided to bidders;
- whether components of a project that have become separated or “unbundled” after the original request for proposal has been issued need to be tendered separately; and
- what constitutes a meaningful level of warranty coverage relative to the nature and magnitude of the project being undertaken.

We also observed that although cited as a public-private partnership, the government’s ownership, operational and financial responsibilities are so significant compared to the contracted risks assumed by the private sector that, in our opinion, a public-private partnership was not established.

CHAPTER TWO

Toward Better Accountability

2.00

In accordance with a June 1993 motion of the Standing Committee on Public Accounts, I have pursued and advocated the establishment of a workable legislated accountability framework. As covered in my annual reports for the last three years, a better accountability framework is necessary for the effective management of government finances, spending and resources. Such a framework, especially if anchored in legislation, would provide better means for the Legislature to assess whether all funds have been and are being spent prudently for the intended legislated purpose. As well, it would result in better information being provided to the ministers and the government for decision making.

To make the right decisions, decision makers must be provided with reliable information so they can assess for each government program whether it should continue as is, be modified or be discontinued. It is this results-oriented focus that should be the driving force behind reductions in spending, deficits and debts.

CURRENT STATUS

Several encouraging steps are now being taken toward better accountability to the Legislature, and therefore the taxpayers, for performance and results by ministries, agencies and the government as a whole. My thoughts on these initiatives are summarized below.

REPORT BY THE ONTARIO FINANCIAL REVIEW COMMISSION

The Ontario Financial Review Commission (OFRC) was established in the summer of 1995 by the Minister of Finance in order to review the government's financial practices. In November 1995 the OFRC presented the Minister with its report, *"Beyond the Numbers: A new financial management and accountability framework for Ontario."* The report laid out a cycle of planning, reporting, monitoring and evaluating that aims to ensure programs meet real needs and meet them effectively. The report reflects a belief that the Legislature is the proper forum for public accountability.

In its report the OFRC made 55 recommendations covering three main areas: planning; financial reporting and accounting; and Crown agencies. In the *1996 Ontario Budget*, the government indicated that 25 of the recommendations have already been implemented, that it is working on implementation of 27 others and that three need legislative change for implementation.

I am very pleased that the thrust of certain key recommendations is in the same direction as I have recommended and advocated. Of special interest to my Office is the government's imple-

mentation of the Commission's recommendation to use the same reporting standards for all its budgetary reports and updates as those used for its annual financial statements—the standards set by the Public Sector Accounting and Auditing Board. I have been advocating this step since 1993.

I will be following with great interest the action taken by the government on all the OFRC's recommendations.

ONTARIO'S BUSINESS PLANS

In May 1996 the government initiated a first step toward better accountability by publishing Ontario's Business Plans which contain:

- each *"ministry's goals and how they link to the government's guiding principles"*;
- each ministry's definition of its core business, in terms of *"the primary responsibility of the ministry—what it must achieve to be effective"*;
- each ministry's key strategies explaining *"how [it] is making changes to its core business"*;
- each ministry's proposed performance measures. *"For real accountability, the legislature and public must understand a program's objectives and be able to assess whether objectives have been achieved. One way private sector businesses can do this is by measuring their profit levels. Measuring how public services are performing can be more complex, because the quality as well as the quantity of service must be evaluated. Setting performance standards is an evolving process and ministries will work with their stakeholders, the public and the legislature to refine their performance measures."*

Beginning with the publication of these plans, the government intends to publish ministry business plans shortly after each budget. In future plans, ministries are to report back on their performance achievements and the results of public consultations and feedback during the year.

The government acknowledges that *"there is still much to be done to generate new efficiencies, to set and meet performance standards and to work toward better accountability for the money the ministries spend. . ."* I believe publication of the business plans is a useful initial step toward improving accountability.

BETTER ACCOUNTABILITY TO THE LEGISLATURE

In my 1995 *Annual Report* and in my April 1996 appearance before the Standing Committee on Estimates, I stated that improvements can and should be made in the present legislative estimates review process. I suggested that legislators address the issues of timing and lack of performance and future-oriented information. Such a change would involve the Standing Committee on Estimates redirecting its attention from focusing on expenditures already committed to reviewing ministry business plans for the forthcoming year. Each ministry appearing before the Committee would be requested to prepare a future-oriented business plan outlining its strategic priorities, initial estimates of program expenditures, the key issues facing the ministry and expected program results.

The OFRC recommended in November 1995: *"That government have a review carried out with the goal of ending the current Estimates process, which is ineffective. This review, by either a special task force of the Legislature or an existing committee, should focus on an earlier and more useful debate of spending authority."* In the 1996 *Ontario Budget*, the

government responded to that recommendation as follows: *“The government will work with the Legislature towards improving its ability to effectively review ministries’ spending authorities.”*

In the May 1996 *Introduction to Ontario’s Business Plans*, the government also stated: *“As recommended by the Ontario Financial Review Commission and by the Provincial Auditor, the government will work with the legislature to integrate business planning and performance measurement into ministers’ accountability to the legislature. This will enable the legislature to effectively review ministries’ spending authorities.”*

These are encouraging developments because the effort to reduce the deficit has created an ongoing and pressing need for the Legislature to re-examine the government’s spending. As a result, there is persistent pressure on ministries and agencies to clearly demonstrate that they are making sound and effective use of taxpayers’ dollars. Hard decisions are being made to reduce spending, including transfer payment funding, and to manage downsized ministries and agencies. These decisions are made more difficult if ministries and agencies do not have results-oriented goals and reliable, accurate and timely program and financial information. Better performance and financial information can advance the public debate on the need for and the efficiency and effectiveness of specific programs and activities.

IMPROVING GOVERNANCE

Good governance is crucial. It is about making the right decisions and getting the right results. It is the means through which public institutions can successfully achieve their objectives and earn the confidence of those they serve and those who fund them. Good governance both justifies and reinforces public trust.

The Legislative Assembly of Ontario, through ministries, funds over 7,000 governing bodies for many different types of organizations. The functions of these organizations range from providing high-level policy advice to delivering government program services directly to Ontarians.

Historically, about half of the government’s annual expenditures are spent by these separately governed organizations. The principal method used by the government to provide funding to them is through transfer payments. The Management Board Directive on Transfer Payment Accountability prescribes a framework with four key requirements: setting expectations; contracting for services; timely reporting of results achieved; and taking corrective action when necessary.

The four requirements of the Management Board Directive and the effectiveness of governance should be fundamental to economic, efficient and effective delivery of government programs and services by separately governed organizations. However, the ministries that make the transfer payments and, as a consequence, the recipient organizations, have often neither defined nor implemented the key requirements of this Directive. In most cases, boards have full autonomy, and the mechanisms for accountability to the ministries for performance and prudence in spending government funds are not in place.

To encourage better governance, since 1994 I have made presentations to ministries and boards of directors of agencies and transfer recipients on governance. In the presentations to ministries, we discussed the effectiveness of the boards in delivering the ministries’ programs. In the

presentations to boards of directors, we discussed the effectiveness of boards in governing their organizations. In the present period of downsizing and restructuring of government services, the answer to the fundamental questions that we considered have become even more important. The questions are: for ministries—what value does each board add to the program delivery?; and for boards—how effective is your governance?

IMPROVING THE AUDIT REGIME

PROPOSED AMENDMENTS TO THE *AUDIT ACT*

For the year ended March 31, 1996, about \$28 billion (48%) of government funds were spent by separately governed recipients of government transfer payments (grants). The principal recipients of these grants were colleges, hospitals, universities, municipalities, school boards and many agencies funded by various ministries. These grants are typically conditional; that is, they come with “strings” attached. Such strings may require direct compliance with relevant legislation and that funds be spent cost-effectively and for specified government program purposes only.

Currently, subsection 13(1) of the *Audit Act* permits my Office to perform an “inspection audit” of a recipient of a grant from the Consolidated Revenue Fund or an agency of the Crown; however, section 1 of the current Act narrowly defines an inspection audit as “an examination of accounting records.” This effectively limits the scope of our audit work to financial and compliance matters.

Permitting my Office to carry out value for money audits of grant recipients that are given government funds to achieve a legislated purpose would make my Office’s services to the Legislative Assembly, to the Standing Committee on Public Accounts and, through them, to the taxpayers, more comprehensive and more effective.

Since 1990 the Standing Committee on Public Accounts has been voicing its desire to give my Office the legislated access to information necessary to carry out full-scope compliance and value for money audits of organizations receiving conditional government grants.

Members of the Assembly from all three parties have expressed their views on this issue as follows:

In October 1992, in the publication *A Blueprint for Learning in Ontario*, the Ontario Progressive Conservative Caucus stated: “. . .as recommended by the Standing Committee on Public Accounts, the Provincial Auditor should be allowed to perform value for money audits of ALL government agencies and recipients of government funds.”

In December 1992 the Honourable Floyd Laughren (NDP) wrote to the then-Chair of Public Accounts Committee: “As I have stated in the past, I support any proposed amendments which will allow the Provincial Auditor’s Office to continue their important role in ensuring that value for money continues to be received for all government expenditures.”

In November 1995, Mr. Joseph Cordiano (Liberal), former Chair of the Public Accounts Committee, stated in the Assembly: *"... the real heart of the matter lies with the quasi-public transfer partners, the recipients of (those) funds. I ask the minister, why hasn't his government moved to make the amendments necessary to the (public) Audit Act so the auditor could go in and audit some of these transfer payment recipients to determine some real savings?"*

In the period between February and June 1996, the Standing Committee on Public Accounts held public hearings on this issue and discussed the submissions presented in these hearings, as well as written submissions that it had received.

On June 13, 1996 we provided the Committee with specific proposed amendments to the *Audit Act*. The primary objective of the proposed amendments is to provide my Office with the discretionary authority to perform value for money audits of organizations, such as community colleges, universities, hospitals, municipalities and school boards, which receive grants from the Province of Ontario or from an agency of the Crown. The amendments were drafted by Legislative Counsel in consultation with my Office. The Committee reviewed the proposed draft amendments and unanimously adopted the following motion:

That the proposed amendments be provided to the Minister of Finance and that the Committee requests a response and action plan from the Minister of Finance by the Committee's first meeting following the Summer recess [September 26, 1996].

INTERNAL AUDIT

Internal audit is an important component of financial and management control of the ministry it serves. A properly developed and effectively employed internal audit function provides reasonable assurance that control processes are satisfactory and can also identify weaknesses which require corrective action.

With the downsizing and restructuring that is currently taking place in the government's operations, it is essential that ministries continue to have appropriate financial and management controls in place to ensure that funds are being spent prudently for the approved purposes.

In my *1995 Annual Report*, I pointed out that the number of staff employed in internal audit functions of ministries had decreased from 363 in 1991/92 to 257 at the end of the 1994/95 fiscal year. These numbers have continued to decline to less than 200. This decline, which is far steeper than the decline in government spending over the same period, has taken place without an assessment of whether internal audit resources are of sufficient number or have the broad range of skills required to provide an effective service.

The government currently has an initiative under way to reduce administrative expenditures by approximately 30%. Included in that initiative is the possibility of further reductions in funding for internal audit and alternatives for delivering internal audit services. With this further reduction, it will become a very daunting challenge for ministries to ensure that internal audit can make its required contribution to effective financial and management controls which, especially now in a period of downsizing, need to be strengthened rather than weakened.

CONCLUSION

I am pleased that several encouraging initiatives are under way. The government has acknowledged that much remains to be done, including action by the Legislature to improve the estimates review process, to achieve the level of accountability for performance and results which are necessary for the effective management of government, its finances and spending and its resources. Sound accountability for performance and results would also give the legislators the tools to better determine which government programs should continue as they are and which should be modified or discontinued. These determinations are fundamental to reducing spending, deficits and debt, and enhancing public confidence in the quality of government.

CHAPTER THREE



Reports on Value for Money Audits

MINISTRY OF AGRICULTURE, FOOD AND RURAL AFFAIRS

Agriculture Division

3.01

The purpose of the Ministry's Agriculture Division is to foster competitive agriculture, help maintain the environment and support rural community development. This is accomplished through a network of field offices which provide for the transfer of information and technology to the rural and agricultural communities. Information and technology are transferred through various means including newsletters, technical pamphlets, on-site farm demonstrations, telephone consultation, and training seminars which, for example, inform participants about new production practices and ongoing agricultural research.

The Agriculture Division is composed of four field services program areas and the Resources and Regulations Branch. The Division has a network of 50 local offices which functions as the front line delivery mechanism for ministry programs and services. Approximately 500 field services staff coordinate their work with other divisions, ministries and levels of government, as well as agricultural and rural organizations, in order to develop and deliver ministry programs and services. For the 1995/96 fiscal year, estimated operating expenditures for the Agriculture Division totalled \$50.5 million.

OBJECTIVES AND SCOPE

The objectives of our audit were to assess whether:

- resources were managed with due regard for economy and efficiency; and
- satisfactory procedures were in place for measuring and reporting on the effectiveness of service delivery.

The scope of our audit included discussions with Ministry officials, visits to eight field offices and the review of documentation and management reports. We also sent out questionnaires to a representative sample of field services staff and reviewed any relevant work done by the Ministry's Audit Services Branch.

OVERALL AUDIT OBSERVATIONS

The Division has implemented a number of new processes and procedures to enhance the administration of field services. Additionally, clients have generally been satisfied with the services delivered. However, the Division needs to take further action to deliver its programs

and services more economically and efficiently and to establish better procedures for measuring and reporting on its effectiveness. Specifically, the Ministry needs to make the following improvements.

- Although six field offices were closed in 1996, an adequate level of service could be provided with fewer office locations.
- A complex management structure has resulted from staff having a dual reporting responsibility to field services managers who oversee the local offices and to program managers accountable for program delivery. Staff roles and responsibilities need to be clarified and streamlined in order to ensure more efficient program and service delivery.
- In the planning and reporting process, the results expected from staff activities need to be clearly defined, and staff should report on the achievement of results rather than activities performed.

DETAILED AUDIT OBSERVATIONS

Four directors administer the Division's field services program. Each director is responsible for one of the four regional groupings of the 50 local offices, and for one of the following four major program areas:

- Farm Business Management Program — advice and training in areas such as business and estate planning, obtaining credit, income tax planning, marketing and agricultural health and safety;
- Crop Technology Program — consultation and education related to crop production, including such areas as: soil nutrients, drainage, irrigation, farm equipment and pesticide reduction;
- Livestock Technology Program — education in areas such as production management, health maintenance, animal housing and livestock marketing; and
- Rural Leadership and Organizational Development Program — training programs including organizational development, leadership, business diversification and community development.

In 1992 and 1995 the Ministry engaged consultants to perform province-wide surveys to determine if clients were satisfied with the services being delivered. Survey results from telephone interviews with representatives of the agricultural and rural communities indicated that clients had expressed a high level of satisfaction with the services delivered.

FIELD OFFICE LOCATIONS

Field services offices were originally established on a county by county basis pursuant to the *Agricultural Representatives Act* which was repealed in 1994. Due to fiscal constraints imposed on the Division during the 1995/96 fiscal year, six offices were scheduled for closure to reduce the number of locations from 50 to 44. In addition, the Ministry has entered into two agreements to share the cost of facilities and administrative staff with other ministries. As a result of the scheduled closures and shared locations, the Division will reduce staff by 36 positions.

The 1995 survey noted that office closures would impact clients by reducing the frequency of their visits to field offices. However, the study concluded that the level of client satisfaction would not be adversely affected by further office closures. The Ministry is continuing to review various options for reducing the number of field offices and acknowledges that further closures will be necessary as part of its overall efforts to focus and redesign services.

We reviewed the structure, staffing and location of the Division's field offices and noted the following.

- Field offices were relatively small employing only 7.5 staff on average. Only 19 staff were employed at the largest office. Maintaining such small offices results in significant overhead as every office has at least one administrative employee.
- Many of the remaining 44 offices are located relatively close together. For example, in the eastern region there are five offices, formerly seven, located within a 50-kilometre radius.
- It is not economically feasible for each office to have a full complement of staff in each of the many specialized areas of agriculture. Therefore, specialists are responsible for clients in a number of field offices. For example, the 50 field offices shared 8 swine and 13 dairy specialists.

We believe that further closures would result in larger, more economical offices with fewer administrative staff, reduced overhead costs and a concentration of specialists.

Recommendation:

The Ministry should ensure that the review of downsizing options results in a reduction in the number of field office locations which is justifiable in economic and service level terms.

Ministry Response:

Agree with the recommendation. Since the audit was conducted, the Division has further reduced the number of field offices to the current 35 full-service and 7 satellite locations. This number is down from 55 full-service offices that were in place during the 1980s. The plans for office consolidation were based on a detailed analysis of the number and location of agricultural and rural clients, farmgate sales, sales generated per farm unit and distance between offices. We also analyzed the results of our latest client survey to determine the current attitude of clients toward alternative delivery systems. We are also investing in developing location independent information transfer systems.

FIELD OFFICE STAFFING

In order to ensure that staff spend the majority of their time on activities ranked as high priority, management must have procedures in place to determine where staff devote their efforts.

By analyzing this information, management can assess whether resources are being used efficiently in achieving established objectives.

In 1995 the Division established a series of general priority levels for various staff activities. For example, economic activities were ranked as an area where staff should spend most of their time, while activities of a social nature were to be reduced or eliminated. However, the Division does not maintain a time monitoring system which would summarize the activities performed by staff. Consequently, the Division is unable to monitor staff activity and determine whether the majority of staff time is being spent on the high priority areas.

The Division has not established guidelines outlining the activities that should be performed by the 50 field staff classified as Rural Community Advisors (RCAs). Additionally, the Division was aware that RCAs devoted considerable time to working on social issues in the rural community, but did not know the extent of such activities as a detailed activity reporting system was not in place. The Division therefore conducted an internal survey to determine how much time RCAs devoted to selected activities. The survey indicated that the equivalent of 25 full-time staff, or \$1.5 million in RCA and administrative salaries, were being devoted to supporting the leadership activities of a youth organization.

The job responsibilities of the Ministry's 48 Agricultural Representatives have also not been specifically defined. Traditionally, these individuals were the front line managers for the field offices. However, during the 1993 reorganization their management responsibilities were assumed by the field service managers. Presently, the Agricultural Representatives are not responsible for any one particular program area and are essentially generalists who report to a number of program managers. We interviewed a number of Agricultural Representatives who were concerned that their role and responsibilities were unclear.

Recommendation:

In order to ensure the economic and efficient utilization of staff, the Ministry should:

- establish guidelines for each major work-related activity and implement a system to generate information on the actual activities performed for comparison with those guidelines; and
- review and clarify the functions of the Rural Community Advisors and the Agricultural Representatives and determine whether the present number of staff in those positions is justified.

Ministry Response:

The introduction of Areas of Focus, Work Plan Agreements and monthly and quarterly reports has been the first step in introducing a more accountable system of tracking. In 1996 a process of fine-tuning will be followed to improve the quality of the priority-setting and evaluation systems.

The role of both the Agricultural Representative and Rural Community Advisor was reviewed in the recent budget reduction process. The number and type of clients served in a service area were analyzed. The Agricultural Representative was renamed Agriculture and Rural Representative to better reflect a broadening of responsibilities to include rural economic development. The number of these positions was reduced as part of the office consolidations. The priorities for the Rural Community Advisor and Agricultural Representative positions were more clearly defined as part of the Defining the Edges process; updated job descriptions more clearly define their roles. In addition, several Agricultural Representative and Rural Community Advisor positions were amalgamated to better staff the smaller satellite offices.

3.01

DIVISIONAL STRUCTURE

In 1993 the delivery of field services was reorganized by the Ministry on both a regional and program basis. Each of the four regions is headed by a director who is responsible for the region as well as one of the four major program areas. Each region also has four field service managers who coordinate the delivery of services at the field office level. These managers are accountable for office administration and the day-to-day supervision of field staff in the local offices.

The Division's 24 program managers, all located at head office in Guelph, have the overall responsibility for developing and communicating provincial program priorities and reporting provincial results. They are also individually responsible for a specific area of agriculture or rural affairs such as field crops, farm business management or livestock nutrition.

Program managers are responsible for the success of their program areas, but they do not have direct control over the field staff who deliver the programs. Satisfactory delivery of the programs developed by the program managers therefore depends on a high degree of coordination and cooperation among the program managers, the field service managers and the field staff.

However, our questionnaire and discussions with staff revealed a number of issues which impact on satisfactory program delivery. For example, 70% of field services staff who responded to our questionnaire were concerned about the complexity of the management system. Some employees have to report not only to their field services manager but also to several program managers. Field staff also stated that there were no formal lines of communication between staff in the local offices and program managers at head office. Several directors, field services managers and program managers also noted that cooperation and coordination between the two levels of management needs to be improved.

Recommendation:

In order to help ensure the efficient delivery of the Division's programs, the Ministry should clarify management responsibilities and streamline communication and accountability.

Ministry Response:

Operating within the matrix system continues to require a more sophisticated approach to management. We are more clearly defining the program development and coordination responsibilities of the program manager. Communication continues to be a challenge. In addition to a clarification in the responsibilities of program managers, we are incorporating more accountability with the program managers for ongoing communications to field staff relating to program delivery.

COST RECOVERY

The Division provides a number of services to clients such as training programs, the distribution of agricultural pamphlets, on-site farm consultations, field office visits, answering telephone inquiries and providing meeting rooms. However, the Ministry generally does not recover the cost of these or other services provided through the field services program.

In 1995 the Division surveyed clients and found that many would be willing to pay for various field services. For example, over half of the clients surveyed would be willing to reimburse the Ministry for the use of meeting rooms, on-site consultation, field office visits, technical pamphlets and training. Over 40% of the Division's clients would also be willing to pay for telephone inquiries.

Management Board Directives state that when it is reasonable and practical to do so, the cost of providing services to the public should be borne by those who benefit from the service. Many of the services provided by field services are for the direct benefit of individual clients. In such cases ministries should charge for services, provided the administration costs are reasonable and the charges would not undermine the objectives of the program. Given that staff time and ministry resources are limited, it may be appropriate to charge for services in order to recover some of the costs of delivering the program.

Recommendation:

The Ministry should implement charges to recover the cost of services that are a direct benefit to individual clients, provided the charges are justifiable and do not undermine program objectives.

Ministry Response:

A director-led working group is developing a cost recovery strategy that we expect to begin implementing in 1997.

FIELD SERVICES PLANNING

Since 1993 the Division has moved from a very informal staff evaluation and accountability system to a formalized target setting process. To help focus this process the Division has prepared a manual which attempts to direct staff to the areas in which they should be concentrating their efforts. Field staff are required to prepare annual work plans which outline their activities as they relate to division priorities and programs. These plans are to be reviewed and approved by the field service manager and a copy sent to the program managers to keep them informed of local plans.

We reviewed a sample of work plans at eight area offices and noted that the majority address the major areas of focus established by the Division. However, we noted that 70% of the work plans outlined very general targets which lacked detail and failed to specify when targets were to be accomplished. Consequently, management was unable to hold field staff accountable for the accomplishment of their work plan targets.

Since the objectives and priorities of program managers may differ from those of the field service managers, it would be reasonable to have program managers formally participate in the annual work plan process. They would then be aware of the intentions of field service managers, as well as the front line delivery staff, and could assist in coordinating efforts towards achieving overall division objectives. However, the program managers are not directly involved in the target setting process for field staff.

Another aspect of the planning process relates to the development of an operational plan for each field office that documents the intentions of field services managers and their tailoring of programs to meet local needs. The operational plans can establish targets for achievement and provide program managers with a means of assessing consistency with overall program direction. Although some field offices prepare such plans, there are no requirements to submit these plans for management review.

Recommendation:

In order to enhance the targeting of local needs by the field offices and ensure the compatibility of field office goals with program objectives, the Ministry should:

- **require field services managers to prepare annual operational plans for their field offices and submit them for management review;**
- **ensure that the work plans of field staff include reasonably detailed targets with a specified time frame for completion; and**
- **ensure that work plans are reviewed, adjusted where necessary, and approved by both the field services manager and the appropriate program managers.**

Ministry Response:

Agree with these recommendations. As part of the 1996 Client Based Programming and Operational Planning process, we will be building in more accountability with both the field service and program managers. The program managers will be accountable for results in their program areas.

PERFORMANCE MEASUREMENT AND REPORTING

The Division collects measurable data and produces performance reports for some individual projects within a program area. However, this information is inadequate for evaluating the effectiveness of a program area as a whole. Evaluating the effectiveness of the Division's programs and services is essential to ensure that activities are achieving the desired results.

We reviewed a sample of monthly reports from eight field offices. We found that the reports generally related back to the target setting process, but primarily indicated what activities had been performed. Consequently, the reports did not convey the relevance or the resulting impact of the work performed by staff. Follow-up procedures which emphasize the need to report results, including examples of best practices, should be considered. For example, some program managers used client surveys to determine if their programs were achieving the desired results.

Recommendation:

To improve performance monitoring and identify areas where corrective actions are necessary, the Ministry should implement adequate procedures to measure and report on the effectiveness of field services activities.

Ministry Response:

In 1995/96 a two-prong approach to program evaluation was implemented. The first is an ongoing measurement and reporting by staff which focuses on results achieved rather than simply activity. This includes monthly reporting by individuals and program areas as related to predefined objectives and areas of focus. The second is to conduct periodic, in-depth program evaluations. For example, in 1996 a program review was completed for both the Master Gardener and Greenhouse Advisory programs. This integrated approach will provide an enhancement of the entire spectrum on performance measurement and reporting.

MINISTRY OF AGRICULTURE, FOOD AND RURAL AFFAIRS

Education, Research and Laboratory Services

3.02

The Education, Research and Laboratory Services Program of the Ministry of Agriculture, Food and Rural Affairs provides ongoing support to the agriculture and food industry. This support includes research in agriculture, food processing and veterinary medicine; diploma and continuing education; and laboratory analysis, testing and diagnosis.

The Ministry directly operates three colleges of agricultural technology. The Ministry also provides funding to the University of Guelph for agricultural research, an agricultural diploma program and the Ontario Veterinary College. The Ministry's two laboratories provide services such as veterinary diagnosis for the livestock industry and testing of produce for trace contaminants and pesticides.

For the 1995/96 fiscal year, expenditures totalled \$80.1 million. For the 1994/95 fiscal year, program expenditures totalled \$86.3 million. Of this amount, the Ministry allocated \$23.3 million to education, \$49.2 million to research and \$13.8 million to laboratory services. The Program also generated revenue totalling \$9.3 million. The 1994/95 fiscal year is the most recent year for which such a breakdown is available.

OBJECTIVES AND SCOPE

The objectives of our audit were to assess whether:

- program resources were managed with due regard for economy and efficiency; and
- satisfactory procedures were used to measure and report on the effectiveness of the Program.

The scope of our audit included a review and analysis of the documentation and management reports maintained by the Ministry's Education, Research and Laboratory Services Division as well as discussions with private sector corporations with extensive research operations and on-site work at the University of Guelph and at ministry colleges, laboratories and research centres.

OVERALL AUDIT OBSERVATIONS

Although the Ministry has initiated a number of measures to enhance administration of the Education, Research and Laboratory Services Program, we found the following.

- With enrolment at 65% of capacity, per student costs for ministry colleges were significantly higher than those for community colleges.
- Cost/benefit analyses to justify research proposals were not performed, and follow-up procedures were not in place to determine whether completed projects achieved the intended results.
- The laboratories charged fees which did not cover the costs of the services provided.

DETAILED AUDIT OBSERVATIONS

EDUCATION

The Ministry's three colleges of agricultural technology are located in Kemptville, Ridgetown and Alfred. The college in Alfred provides services exclusively in French. For the 1995/96 academic year, 650 students were enrolled in diploma education at the Ministry's three colleges, and 390 students were enrolled in a ministry-funded agricultural diploma program offered by the University of Guelph. The Ministry has provided diploma education to over 20,000 individuals since the program's inception in 1874.

Expenditures allocated to diploma education for the 1994/95 fiscal year totalled \$6.1 million and \$1.2 million for the Ministry's colleges and the University respectively. The Ministry also provided funding totalling \$5.5 million to the Ontario Veterinary College for the clinical training of veterinary students.

AGRICULTURAL COLLEGES

The Ministry's three colleges offer two-year diploma programs in a number of areas including field crops and livestock management, agricultural business, veterinary technology, horticulture, food and nutrition, agricultural journalism and dairy cattle production. A 1995 survey of recent graduates from the Ministry's colleges stated that more than 90% of the responding graduates had obtained employment in agriculture and related industries.

Enrolment at the Ministry's colleges peaked in the 1982/83 academic year with 1,260 students and declined sharply throughout the 1980s. Because of this declining enrolment, the Ministry closed two of its five colleges in 1994 and reduced capacity from 1,550 students to the present 1,000. Enrolment for the 1995/96 academic year was 650 students. Enrolment has been relatively stable at about 650 to 700 students since 1990.

Admission standards are similar to and, where programs overlap, courses are rated equivalent to those of the community colleges. However, we noted that government spending per student for diploma education at the Ministry's colleges averaged \$8,800 compared to an estimated \$5,900 the Ministry of Education would pay for similar programs at community colleges. A

major factor contributing to the high cost per student at the Ministry's colleges is that they are operating at only 65% of enrolment capacity.

Recommendation:

To ensure that educational services are offered in the most economical manner, the Ministry should assess the economic feasibility of maintaining the agricultural college system in its present form.

Ministry Response:

The Ministry is investigating the restructuring of its education activities, along with its research and laboratory services, either through an enhanced partnership with the University of Guelph or through a scheduled agency. Either option will allow for the capture of the efficiency offered by one administration, and also capture and generate revenue similar to the revenue advantages available to community colleges.

CLINICAL EDUCATION

In 1982 the Ministry entered into an agreement to provide funding to the Ontario Veterinary College because the funding provided at that time by the Ministry of Colleges and Universities was not sufficient to cover the costs of the veterinary clinical education program. The agreement included funding for the clinical education of 100 veterinary students, the operation of a veterinary teaching hospital, an internship program, advanced clinical training for 35 students and student work terms with private veterinary practitioners.

For the 1994/95 fiscal year, the College received \$5.5 million from the Ministry and \$14.2 million from the Ministry of Education and Training. The majority of the Ministry's funding was not targeted for specific components of the clinical education program but was combined with the College's other funding and revenue. Consequently, the reasonableness of the amount of the Ministry's funding can only be assessed by reviewing the entire cost of the program.

We found that, while the Ministry received an annual summary accounting of its funding of the clinical education program, it did not obtain details regarding the overall cost of the program. Therefore, the Ministry was not in a position to make an assessment to determine if all elements of the program should be funded and whether each element was delivered in an economical manner.

For comparison to Ontario's veterinary college, we obtained detailed financial information from the three other veterinary colleges in Canada and discussed education costs with their administrative personnel. Since the colleges do not allocate expenses to their operations in a uniform manner, we were unable to compare all of the costs associated with the Ontario college to those of the other provinces.

However, we did find that the Ontario Veterinary College was the only institution which paid stipends for student work terms. These stipends totalled \$366,000 per annum. We also noted that the provincial subsidy for the College's teaching hospital was significantly higher than the subsidy received by the other three veterinary colleges in Canada. The Ministry provided \$3.2 million and the Ministry of Education and Training provided \$1.6 million for the operation of the College's teaching hospital.

We understand that subsequent to our inquiries, the Deans of the four Canadian veterinary schools have undertaken a project to produce uniform data to allow for the direct comparisons of their educational costs.

Recommendation:

To determine the reasonableness of the funding for clinical education, the Ministry should obtain detailed information on the cost of the program and assess the need for each component and whether it has been delivered in an economical manner.

Ministry Response:

Agreed. The Ministry has requested and received a detailed accounting of the use of its funds in the clinical education and operation of the Veterinary Teaching Hospital. This level of detail will be requested annually through a revised Memorandum of Agreement. The Ministry has also requested that the Ontario Veterinary College develop performance measures that are annually reported and will assist the Ministry in evaluating the effective and efficient use of program funding.

RESEARCH

The Ministry is responsible for the administration of the annual appropriation for agricultural research, which totalled \$49.2 million for the 1994/95 fiscal year. This funding was used to support approximately 800 research projects. These projects included research into farm management practices, the development of vaccines and projects to increase the yield of agricultural crops.

The overall objective of the Ministry's research program is to enhance the competitiveness of Ontario's agri-food sector through the creation and development of new technologies. The Ministry is assisted in establishing specific research objectives by the Ontario Agricultural Services Coordinating Committee (OASCC). The OASCC and its 90 subcommittees have 930 members, half of whom come from the agricultural sector, with the remainder from the University of Guelph, the Ministry, and the Department of Agriculture and Agri-Food Canada.

The OASCC annually submits research recommendations to the Agricultural Research Institute of Ontario which is a government agency consisting of up to 15 members appointed by the

Minister. Based on the OASCC submissions, the Institute makes recommendations to the Ministry regarding the objectives and goals for the research program. Research is predominantly performed by scientists from the Ministry and the University of Guelph. The research funding to the University is governed by a contract.

PROJECT PROPOSALS

Each year university and ministry research scientists prepare proposals which set out the details of the research they intend to carry out. The Ministry has implemented new guidelines for the preparation of research proposals beginning with the 1995/96 fiscal year. These guidelines include requirements for researchers to note the significance of their research to the industry, the objectives of the project and milestones to be achieved. They must also describe any related work performed by other researchers.

We reviewed the Ministry's project proposal process against general standards for research and information obtained from two major corporations with extensive research operations. The corporations devoted a significant proportion of their research efforts to identifying and quantifying the benefits of proposed research. These benefits are then compared to the expected costs to complete the research and develop any new technology. We found that the ministry and university research proposals did not include such a cost/benefit analysis.

In addition to the lack of cost/benefit analyses, the sample of proposals we reviewed did not generally provide, nor do the new guidelines require, an assessment of how any new technology would be implemented. Consequently, research could be funded without a complete assessment of the feasibility of the project as the following examples illustrate.

- A research project resulted in the successful development of technology to identify boars which would yield unacceptable meat (that is, meat with a poor taste and unpleasant odor). Boars convert feed into meat more efficiently than other swine, but, because approximately 5% of boars produce unacceptable meat, they are not currently raised for slaughter. The project's justification was based on the premise that swine producers could reduce their feed costs by raising boars. We were informed that meat packers were not willing to implement the research results because their reputations would be at risk if the new technology failed and unacceptable meat was sold to the public. If the proposal had considered the meat packers' position in the implementation of the technology, this project would not have been undertaken.
- Another project resulted in the successful discovery of a vaccine to prevent a gastrointestinal illness in swine. However, the vaccine was not developed by manufacturers because the costs involved in bringing the new technology to market could not be recovered. If a cost/benefit analysis had been done at the proposal stage, it would have become apparent that the project was not economically justified.

Recommendation:

To ensure that all research is economically justified, the Ministry should revise the requirements for project proposals to include a cost/benefit analysis of the research and an outline of how the results could be implemented if the research were successful.

Ministry Response:

The Ministry agrees with this recommendation and will proceed to implement the requirement for a cost/benefit analysis and improved technology transfer milestones in project proposals. The proposals shall also be required to include an assessment of barriers to technology adoption and strategies to enhance implementation of results.

RESEARCH MONITORING

The Agricultural Research Institute of Ontario (ARIO) reviews the research performed in each major agricultural sector on a four-year cycle. The ARIO assesses whether the sector's research needs have been met, establishes future research directions, and makes recommendations to the Ministry on the resources required for the continued effectiveness of the sector's research.

To monitor research within the four-year cycle, the Ministry requires researchers to prepare an annual report which describes progress to date. We found that progress was typically expressed in terms of research activities rather than in terms of results achieved to date. Also, researchers were not required to discuss their progress in terms of the likelihood of achieving their original objectives. Consequently, the annual reports did not provide the information necessary to determine if the project was progressing successfully.

For example, one research project involved work to increase the storage life of potatoes. This project has been ongoing since 1984. However, the project's annual reports did not note whether storage life had been increased. Documentation of this information would be required for the Ministry to determine whether project funding should continue.

In order to address these concerns, the Ministry implemented new guidelines for annual reports which stipulate that progress is to be measured in terms of research outcomes rather than activities. Also, the Ministry informed us that, for the 1996/97 fiscal year, three staff will be assigned to ensure compliance with the new guidelines.

We will follow up on the Ministry's efforts to enhance the monitoring of its research program at an appropriate time.

PROJECT DEVELOPMENT

Management Board Directives state that processes for ensuring that results information is integrated into all management activities must be in place at all ministries. However, we noted that the Ministry did not have procedures in place to measure the extent to which research results achieved the Ministry's objective of enhancing the competitiveness of the Ontario agri-food sector through the creation and development of new technology.

The Ministry closes its project files upon receipt of final reports prepared by researchers. The final reports provide details on the research activities performed for each project objective and describe how the results of the research were communicated to the agriculture and research

community. However, the project files we reviewed did not describe the extent to which the results had been implemented by the intended users. Also, no follow-up analysis was performed to determine what the actual financial and other benefits of the projects were to Ontario's agricultural industry.

For example, one project involved a five-year study to evaluate the impact of a two-tiered housing design on swine-production costs. The study concluded that the design was economically beneficial. However, no information was obtained by the Ministry regarding the number of swine producers who made the recommended changes or whether they found that the reductions in their cost of production were comparable to those estimated by the researchers.

We noted that the Ministry was in the process of developing performance measures for its research program. However, these measures focused on the performance of the researchers rather than the results of the research. Since research results cannot always be immediately realized, post-project evaluation procedures, such as industry follow-ups or surveys, could be used to determine if successful research was actually implemented to the benefit of the agricultural community.

Recommendation:

The Ministry should establish follow-up procedures, to the extent such procedures are economically justifiable, in order to determine whether the anticipated benefits of completed research projects were actually achieved.

Ministry Response:

As noted in the report, research results cannot always be immediately realized. In addition, the results of a single project may not have a significant impact until combined with results of other projects addressing the problem. The focus of effort by the Ministry will be on the initial design of research projects and technology transfer plans. Post-audit will also be used to hone future project design.

RESEARCH FUNDING

The Ministry's research budget for the 1994/95 fiscal year totalled \$49.2 million. Of that total, ministry colleges, laboratories and other facilities were allocated \$19 million. The remaining funds were transfer payments of \$28.9 million to the University of Guelph and \$1.3 million to the Agriculture Research Institute of Ontario (ARIO).

In order to obtain the best value for funds to be expended, Management Board Directive 2-3 states that principles of competition and equal access for research and development expenditures must be observed. The Directive also states that ministries must not permit an organization to gain a monopoly for a particular kind of work and must not continuously rely on a particular outside organization.

The ARIО manages its research expenditures in a manner which is consistent with the Directive. The ARIО targets specific areas to consider for research and uses a competitive tendering process to award research grants. For example, over a five-year period, the ARIО awarded \$6.1 million in project funding from its Food Processing Development Research Fund. Requests for research proposals were sent to over 1,000 organizations; 196 proposals were received, and 83 projects were awarded funding. Although the majority of projects were awarded to University of Guelph and ministry researchers, 45% of them were awarded to other organizations.

The Ministry has funded research at the University since 1968 without competitive tender. As the results of the ARIО tendering process suggest, the University of Guelph has unique capabilities in agricultural research. However, scientists and researchers at other institutions may also have important contributions to make. An open process would allow the Ministry to access the top researchers at other institutions and thereby further enhance the benefits of the research program.

We noted that the Ministry revised the contract with the University of Guelph in 1995 in order to make all scientists at the University eligible for ministry research funding. Under the previous contract, the Ministry had paid a portion of the salaries of specific faculty members. Ministry studies and internal audit reports criticized this practice because it resulted in limiting research to the fields of expertise of those faculty members, regardless of the Ministry's priorities. The Ministry expects the more open process to result in proposals which better reflect its priorities.

Recommendation:

In order to obtain the best value for its research funding, the Ministry should consider a more competitive process for allocating research funds or, alternatively, seek approval from Management Board to award the bulk of its research to one organization.

Ministry Response:

During the period January to April 1996, the Ministry considered several options to help it meet budget downsizing requirements of Management Board. Both of the recommended options were analyzed and were among those presented to Management Board. The government has accepted the proposal to merge most Ministry research programs into one organization, and key components of the proposal are expected to be finalized by November 1996.

LABORATORIES

The Ministry's two laboratories, the agriculture and food laboratory and the veterinary laboratory, perform testing and provide consulting services to the agriculture community, other government departments and the general public.

The agriculture and food laboratory's major responsibilities include testing for food quality and safety, testing milk composition, diagnosing plant pests and diseases, testing water quality and analyzing nutrients in soil samples. During the 1994/95 fiscal year, the agriculture and food lab, in addition to the analysis of 2.5 million milk samples, performed one or more tests on 180,000 other samples. The agriculture and food lab employed 88 permanent staff and administered expenditures totalling \$9.4 million, including \$1.9 million allocated to research.

The veterinary laboratory provides diagnostic and consultative services to support animal health. This involves activities such as the evaluation of animal tissues for diagnosing disease and monitoring the health of livestock. During the 1994/95 fiscal year, this lab conducted tests on over 26,000 specimens. The veterinary laboratory employed 90 permanent staff and administered expenditures totalling \$6.3 million.

3.02

QUALITY CONTROL

To provide a measure of confidence in the quality of the results produced, procedures must be in place to provide assurance that laboratory test results are accurate. These procedures can include peer reviews, the adoption of accepted testing methods and the establishment of appropriate quality management systems.

We noted that the veterinary lab is accredited by the American Association of Veterinary Diagnosticians. The milk testing department of the agriculture and food lab has received accreditation from the Standards Council of Canada, and an independent technical consultant annually performs an audit of this lab. The agriculture and food lab is currently involved in a process to develop ISO 9000 quality control standards. We also reviewed the procedures in place at the Ministry's laboratories and found that quality control procedures for sample submissions, handling, tracking and testing were adequate.

LABORATORY REVENUE

During the 1994/95 fiscal year, the Ministry's laboratories generated revenue totalling \$2.2 million by performing services for other government departments, the agricultural community and the general public. Management Board Directives state that the cost of providing services to the general public should be borne by those who benefit from the service and the amounts charged should reflect program costs. However, we found that fees often did not reflect the full cost of the services provided. We also noted that revenue collection policies need to be strengthened, as the examples below illustrate.

- One laboratory department provides diagnostic services to identify plant pests for farmers, government agencies, private businesses and the general public. The department renders half of its services to the general public to diagnose problems with house plants, lawns and gardens. These services were performed primarily for the personal benefit of individuals. For the 1994/95 fiscal year, the department charged fees totalling \$10,000, which were insufficient to cover its costs of approximately \$100,000.

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- Another laboratory department tests milk samples for the purpose of establishing a fair price for the sale of milk from producers to processors. By Regulation under the *Milk Act*, the Ministry is to be reimbursed for two thirds of the cost of this testing. This reimbursement for the 1994/95 fiscal year amounted to \$1 million. However, the calculation of the reimbursement amount did not include all applicable ministry expenses such as division and ministry overhead. Additionally, the Ministry included in the reimbursement calculation revenue from unrelated activities. By accounting for these items properly, the Ministry could recover additional revenue of approximately \$250,000 per year.
 - One laboratory department provided a specialized service, for a fee, to a number of laboratories throughout Canada. However, we were advised that, due to numerous organizational and staff changes, the Ministry had not sent out invoices for this service since October 1993. At the time of our audit, invoices totalling approximately \$30,000 had not been sent out.

Recommendation:

The Ministry should strengthen its revenue collection practices, review its laboratory fee structure and, where appropriate, charge fees to recover the cost of providing laboratory services.

Ministry Response:

Agree. Approval from Management Board, to enhance the Ministry's partnership with the University of Guelph, was given as part of the Ministry's business plan, which would include revenue collection capabilities.

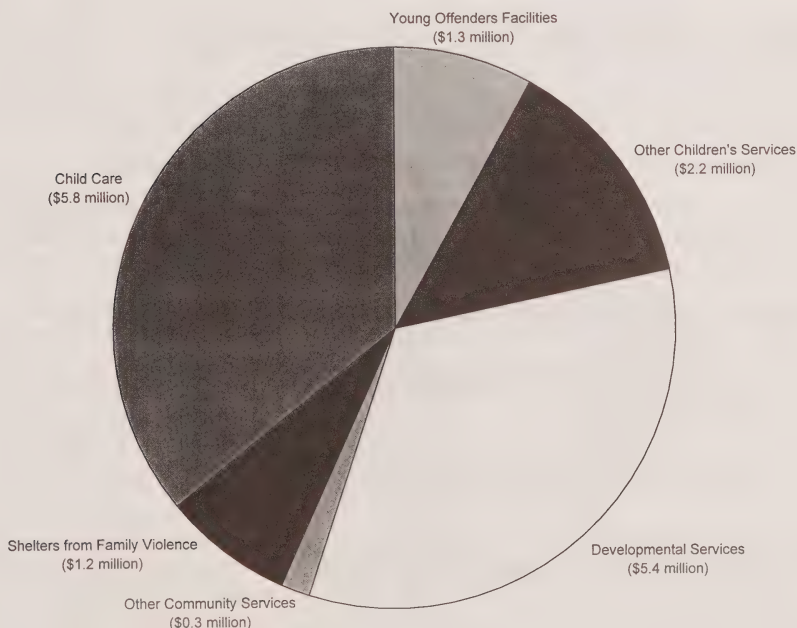
MINISTRY OF COMMUNITY AND SOCIAL SERVICES

Capital Expenditures

3.03

The capital expenditures of the Ministry of Community and Social Services consist primarily of capital grants to municipalities and transfer payment agencies for the renovation and construction of facilities used in the delivery of ministry programs. Typically, ministry funding accounts for 80% to 100% of a project's total cost.

Capital expenditures have decreased steadily from \$126 million in the 1991/92 fiscal year to \$72 million and \$16.2 million in 1994/95 and 1995/96, respectively. Currently, capital funding is essentially restricted to meeting existing capital expenditure commitments. Total 1995/96 capital grant expenditures by program are as illustrated below:



In July 1995 the Ministry proposed the development of a multi-year repair and maintenance or replacement strategy for all existing facilities in conjunction with the compiling of a database of all transfer payment agency facilities and how well they were being maintained. However, at the time of our audit the strategy had not progressed beyond the conceptual stage.

OBJECTIVES AND SCOPE

Our audit objectives were to assess whether the Ministry's procedures for administering capital grants were adequate to ensure that:

- projects were funded only when necessary, and in accordance with established priorities; and
- the reasonableness of the amounts funded was determined.

The scope of our audit included a review and analysis of the Ministry's operating procedures and guidelines for capital grants, as well as interviews with appropriate staff. We also examined a representative sample of grant files primarily for projects completed during the 1994/95 fiscal year. However, our audit did not include a review of capital expenditures for ministry-operated facilities or grants under \$100,000 which collectively were not significant.

OVERALL AUDIT OBSERVATIONS

To ensure that facilities used in the delivery of ministry programs continue to be adequate, the Ministry, in concert with the service delivery agencies, needs to develop and implement a multi-year repair and maintenance or replacement strategy for all existing facilities.

We also found that project documentation was insufficient to determine whether the projects funded were necessary. Project proposals did not identify or assess other alternatives which could have been considered to meet program needs more economically.

Although projects generally proceeded in the order of established priorities, improvements were required to ensure that:

- some lower priority projects from one area are not funded ahead of other higher priority projects from another area;
- agencies do not fund capital projects from surplus or incremental ministry operating funding and consequently bypass the capital expenditure planning and priority setting process altogether; and
- the approval of grants is based on reasonable cost estimates and that the reasonableness of the actual costs claimed to have been incurred is assessed.

DETAILED AUDIT OBSERVATIONS

EXPENDITURE PLANNING PROCESS

For capital projects exceeding \$100,000, staff in the Ministry's area offices are to review the proposals and establish local priorities. These priorities are communicated to the Ministry's Financial and Capital Planning Branch in head office which prepares an overall capital plan for review and approval by the Ministry's Management Committee. The approved plan is then submitted to Management Board which determines overall program funding but does not approve or reject individual proposals. We understand that prior to 1994/95 project listings were not submitted to Management Board, although it still approved overall program funding.

Potential grants for less than \$100,000 and minor renovations to government-owned buildings are reviewed and approved by the Ministry's area offices, but are not detailed in the Ministry's capital plan.

PROJECT REVIEW AND APPROVAL

Given the potentially large number and diversity of capital projects in need of funding, we would have expected the area and head office project review and approval process to: assess each applicant's program facility needs; consider alternative methods of meeting those needs; and select the alternative that met justifiable needs most economically. However, we were advised that as a result of a one-year planning horizon and the tight timeframes imposed by the government-wide annual estimates and funding process, such analysis could not be undertaken. Additionally, the Ministry does not require applicants to consider, or to inform the Ministry of, alternative ways of meeting their program needs or the basis for selecting the best alternative. As a result, the decision to consider alternatives and to what extent rests with the applicant.

Since service providers are given grants as opposed to loans, they therefore have an incentive to purchase new facilities rather than renovate or lease existing facilities in order to minimize ongoing operating costs. However, purchasing facilities may not be the lowest cost option to the government which has to finance any capital funds advanced.

As a result, for the projects that we reviewed, we found no evidence that the option of leasing suitable facilities, or in many cases renovating existing facilities, was given serious consideration. For example, one Children's Aid Society received almost \$5 million for the construction of a new head office building at a time when vacant office space was available for lease in the community but had not been assessed.

Recommendation:

The Ministry should develop procedures to ensure that project proposals are in sufficient detail to demonstrate that:

- other alternatives that would satisfy program facility needs were considered; and
- the chosen alternative was the most suitable and economical to satisfy those needs.

Ministry Response:

The Ministry now requires a business case to be developed to support project proposals before approval in principle is given for the project. This business case must provide sufficient information on the proposal so that it is clear what alternatives have been considered and that the cost benefit analyses and justification support the recommendation to proceed with a particular project.

FUNDING BY ESTABLISHED PRIORITIES

Although capital projects submitted to the Ministry generally proceeded in the assessed order of priorities, we noted some exceptions.

For example, of five Children's Aid Society administration building projects included in the Ministry's capital plan, two in one area were assessed as lower priority than two in another area. However, the two lower priority projects were funded ahead of the higher priority projects, one of which remained unfunded at the conclusion of our audit.

We also noted that some agencies financed capital projects from surplus or incremental operating funding provided by area offices, and consequently bypassed the capital expenditure planning and priority-setting process altogether. The following examples illustrate our observations.

- One Children's Aid Society's request for capital funding to expand its office facilities was not approved by the Ministry's Financial and Capital Planning Branch. The agency, however, proceeded with the renovation using debt financing. The Ministry's area office subsequently increased the agency's operating funding by \$266,000 over five years to assist in retiring the debt. In addition, we were advised that a number of other Children's Aid Societies similarly financed their capital projects using incremental operating funding.
- An Association for Community Living constructed a new administration building using approximately \$840,000, built up from prior years' surplus operating funds provided by the Ministry. The area office agreed to replenish this amount with additional operating funds over the next 20 years with interest calculated at 10.5% on the outstanding balance.

Recommendation:

In order to prevent circumvention of the established capital expenditure planning and approval process, the Ministry should ensure that:

- all capital projects are funded in accordance with the established order of priorities; and
- operating funds are not used for capital expenditure purposes without specific approval of the Ministry's Capital Planning Branch.

Ministry Response:

The Ministry establishes a ranking for projects, based on the Ministry's and government's goals and priorities, after it has been advised of the proposed capital allocation for the fiscal year. The ranking of a project is subject to change during the course of the year because of changes in priorities or emergency situations.

Since the period covered by the audit, the Ministry has established a policy governing the use of surpluses. This policy does not allow the use of surplus funds for capital purposes.

3.03

PROJECT MANAGEMENT

Once an agency receives a grant approval in principle it normally retains an architect to prepare detailed design plans. Until October 1994 agencies submitted the detailed design plans to the Ministry's Architectural Resources Unit which reviewed the plans for compliance with the ministry Design Guidelines. We were informed that the design plans were normally approved, provided they met minimum design guidelines and the estimated construction costs could be accommodated within the original budget. The Architectural Resources Unit was disbanded in October 1994 with the result that this control is no longer in place.

Agencies use the detailed design plans to call for construction tenders. The three lowest bids and the agency's recommendation are submitted to the Ministry for final approval. The Ministry then enters into a legal agreement with the agency relating to the funding of the project, prior to the agency purchasing property or awarding a construction contract.

FUNDING APPROVALS

Preliminary project cost estimates normally form the basis on which grants are approved in principle. However, these estimates are not documented and are often made before sites are selected or facilities are designed. As a result, in the absence of documented detailed cost estimates or other analyses, the Ministry is unable to demonstrate the reasonableness of the proposed funding or whether the amounts approved in principle are warranted.

Subsequent to a grant approval in principle, the agency's architect is asked to design a facility that can be built within the proposed budget. The design plans so prepared are then used to call for construction tenders. The three lowest tenders, together with the agency's recommendation, are submitted to the Ministry for final approval.

We found that in most instances the accepted bid and the funding ultimately approved was equal to the amount originally approved in principle. In a few instances, actual funding exceeded the amount originally approved.

As a result, the Ministry in effect relies very heavily on the agency to ensure that value for money is obtained. Such reliance is in our view questionable.

The following examples illustrate our concerns.

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- The Ministry approved a grant of \$880,000 for the construction of a childcare facility before detailed cost estimates were prepared. A subsequent review of the detailed construction plans indicated that the facility would have 81% more floor area than the suggested allowances in the Ministry's guidelines. However, the design was approved and the project proceeded since the costs to be incurred did not exceed the original budget. Therefore the original budget had not been appropriately assessed by the Ministry.
 - The Ministry granted up to \$2.6 million to an agency for the construction of a secure custody facility for 10 young offenders. There were no detailed cost estimates or other evidence in the files to indicate that the reasonableness of the costs to be incurred had been assessed by the Ministry.
 - Similarly, the Ministry granted \$1.1 million for the construction of a 20-bed shelter for victims of family violence without documenting an assessment of the reasonableness of the costs to be incurred.

Recommendation:

To ensure and demonstrate that approved funding is reasonable, the Ministry should:

- obtain detailed cost estimates for each project and place these on file; and
- document its review and assessment of the necessity for, and reasonableness of, the estimated costs to be incurred.

Ministry Response:

The Ministry agrees with the need to improve documentation. To the extent feasible within allowable time frames, the business case will document the detailed cost estimates that have been developed for each project and whether funding requests are reasonable. The Ministry will ensure that guidelines are developed and implemented to clearly outline agencies' responsibilities in the capital process.

PROJECT PAYMENTS

The Ministry's standard legal agreement with grant recipients requires that payment of Ontario's proportionate share of a project be made upon submission of claims which are to be in accordance with the progress of the project. In accordance with this principle, the agreement also reserves the Ministry's right to determine the amounts to be paid and the timing and manner of payment. These provisions allow the Ministry to obtain sufficiently detailed information in order to assess the progress made and the reasonableness of the amounts to be paid.

However, we noted that in practice the invoices submitted to the Ministry lacked any such details. The invoices generally indicated only the percentage progress draws against the original contract amount. In fact, we found in some cases where only minimal project progress was

reported that most of the total grant was billed and paid in a lump sum just before year-end. The following examples illustrate our observations.

- In March 1994 the Ministry disbursed \$1 million of a \$1.075 million grant when only 6% progress was reported.
- In March 1993 the Ministry disbursed \$1 million of a \$1.1 million grant when no project progress had been made as the construction contract was awarded on the same day.

Recommendation:

In order to ensure adherence to the terms of legal agreements with the recipients, the Ministry should ensure that the amounts to be paid are reasonable and consistent with the progress reported.

Ministry Response:

The Ministry will continue to closely monitor the cost of projects and will ensure that project payments are fully supported by certificates of completion signed by the agencies' architects, project managers or engineers.

LEGAL AGREEMENTS

The Ministry completes a standardized legal agreement documenting the terms and conditions of each funding arrangement. However, these agreements lack some of the normally expected terms and conditions and consequently fail to protect the province in some important respects. In the sample of agreements we reviewed, we found that grant recipients were not required to:

- be held accountable through a non-performance clause, which would provide the Ministry with recourse in the event that the agency failed to fulfil its part of the agreement;
- accrue interest on unexpended grant funds to the benefit of the province;
- ensure that both the members of the recipient organization and the organization itself are not in any conflict of interest;
- provide proof of minimum acceptable levels of liability insurance; and
- provide a detailed accounting of, and support for, actual expenditures incurred.

In addition, we found a number of instances where the existing terms of agreements were not complied with, as the following examples illustrate.

- Where applicable, agreements required agencies to provide the Ministry with a certified copy of the registration of the Ministry's interest on title. Five of the eight files we reviewed where this requirement applied lacked evidence of the required registration.
- In three of the ten files that we reviewed, the amounts disbursed exceeded the maximum grant specified in the agreement. For example, the Ministry paid \$1.7 million under one agreement which called for a maximum grant of \$1.4 million.

Recommendation:

The Ministry should ensure that:

- grant agreements contain all the provisions necessary to protect the Ministry's interest; and
- all grant agreement provisions are complied with.

Ministry Response:

The legal agreements under which agencies are provided with capital grants have been revised recently to strengthen the protection of the government's interests.

Transfer payment agencies require their directors to declare conflicts of interest when matters such as award of contracts are being determined. The Ministry will also set out this requirement in its guidelines for the capital process for transfer payment agencies.

Procedures have been established to require that contracts are reviewed and amended when changes in funding arrangements have been made.

MINISTRY OF COMMUNITY AND SOCIAL SERVICES

Provincial Allowances and Benefits Program

3.04

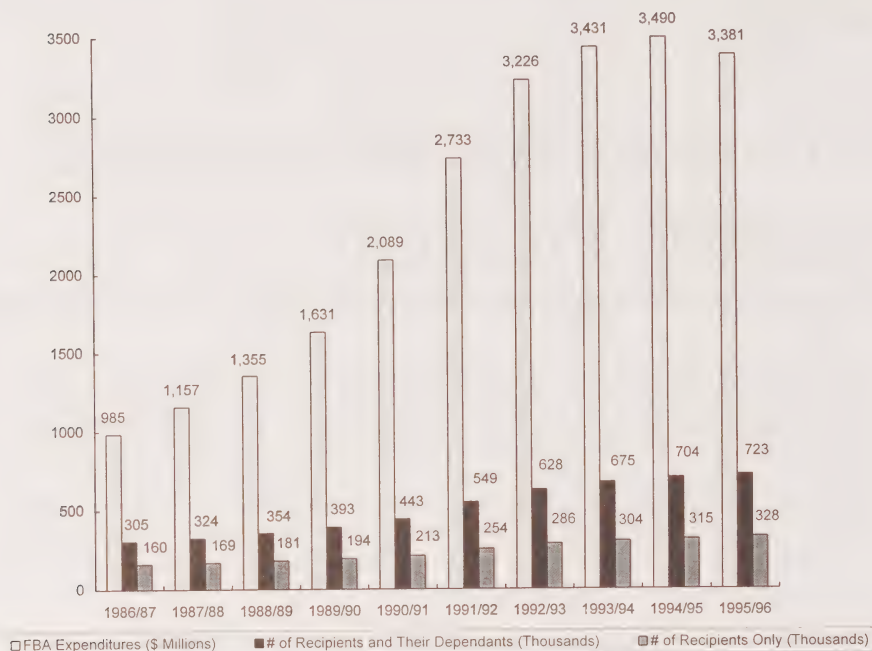
The Provincial Allowances and Benefits program of the Ministry of Community and Social Services (commonly known as Family Benefits) provides financial assistance for prolonged periods of time primarily to individuals who are in need and are considered permanently unemployable as a result of a physical or mental disability or are sole support parents with dependent children. The program is administered by the Ministry under the authority of the *Family Benefits Act* and its Regulation. It is distinct from the General Welfare Assistance program governed by the *General Welfare Assistance Act* and administered on behalf of the Province by municipalities and First Nations. That program is designed to provide short-term assistance to individuals who are unable to provide for themselves.

While the Province of Ontario has a two-tiered social assistance program, most other provinces have one-tiered programs. It is difficult to compare social assistance rates among provinces due to the different categorizations of recipients and the fact that some benefits may be provided in cash or in kind in the form of vouchers or direct delivery of goods or services.

The purpose of the Family Benefits program is to provide eligible individuals with a monthly basic and shelter allowance and benefits such as prescribed drugs, dental care, eyeglasses and emergency home repairs. Monthly allowances vary with the circumstances of individual recipients. The allowances for recipients, other than those in the disabled and elderly categories, were reduced by 21.6% effective October 1, 1995. Typically, a single disabled person may continue to receive up to \$930 per month and a sole support parent with three children may now receive up to \$1,346 per month.

For the 1995/96 fiscal year, the Ministry spent approximately \$5.8 billion on social assistance, of which \$3.4 billion was spent on Family Benefits. The federal government contributed approximately \$1 billion of the latter amount under the provisions of the *Canada Assistance Plan Act*.

A comparative summary of total Family Benefits paid and the number of recipients and their dependants for the last ten years is as follows.



Source: Ministry of Community and Social Services

The Ministry currently uses the computerized Comprehensive Income Maintenance System (CIMS) to maintain recipient information for the Family Benefits program. However, this system, which was originally developed as a cheque printing aid, is limited in its flexibility and the functions it can perform. It also has reached its capacity and consequently is unable to accommodate further technological changes designed to improve program delivery or procedural effectiveness.

As a result, in June 1994 the Treasury Board approved the expenditure of approximately \$171 million for the development of a new system to replace both CIMS and the information system used by Metropolitan Toronto for its General Welfare Assistance caseload. As at March 31, 1996, approximately \$49 million had been spent on this project for development, pilot testing and equipment installation at 30 provincial and municipal offices.

The new system, commonly known as Caseworker Technology, has been pilot tested and is to be fully implemented by March 1997, at which time it will be installed at 170 provincial and municipal sites. When completed, the Ministry expects that the Caseworker Technology system will have automated many of the functions currently performed manually, which should significantly improve the economy and efficiency of the administration of the Family Benefits program.

OBJECTIVES AND SCOPE

Our audit objectives were to assess whether the Ministry's administrative procedures were adequate to ensure that:

- legislative requirements and program policies and procedures were complied with; and
- the program was delivered with due regard for economy and efficiency.

The scope of our audit included a review and analysis of the Ministry's administrative procedures and guidelines, as well as interviews with appropriate head office and area and local office staff. We also reviewed a representative sample of the Ministry's case files during site visits to local offices. These file reviews were designed to determine whether documentation on file complied with the Ministry's requirements and adequately established both the eligibility of the recipient and the appropriateness of the amounts paid. As is appropriate for this type of program, the scope of our audit did not include independent verification or confirmation of information provided by recipients.

We also reviewed the audit plans and relevant reports issued by the Ministry's Comprehensive Audit and Investigations Branch. However, we were unable to reduce the scope of our audit work as a result, since the Branch had not issued any reports on this program during the past two years.

OVERALL AUDIT OBSERVATIONS

We found that the Ministry's administrative procedures require significant strengthening to ensure that legislative requirements and program policies and procedures are complied with. We also found that compliance with current procedures requires improvement to ensure that the program is delivered with due regard for economy and efficiency.

During the past two years, the Ministry has undergone a major change in direction by introducing certain initiatives designed to strengthen the administration of the program. However, implementation of these initiatives has been slow, and a number of significant concerns remain. For example, the Ministry needs to improve the administration of the program in order to ensure that:

- all necessary recipient information is received and assessed by caseworkers so that only those new applicants and ongoing recipients who are eligible receive Family Benefits;
- where possible, information provided by applicants is independently confirmed;
- before the program pays for home repairs, the necessity and reasonableness of costs incurred are established;
- adequate documentation is maintained to demonstrate that reasonable efforts are made by sole support parents to pursue spousal and child support;
- overpayments are minimized and recovery processes are initiated on a timely basis;
- pro-active fraud detection and prevention procedures are implemented;
- reasonable caseload standards are established and adhered to in order to permit caseworkers to perform their functions more satisfactorily; and

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- an effective program monitoring and evaluation process is established for each caseworker and local office.

DETAILED AUDIT OBSERVATIONS

COMPLIANCE WITH MINISTRY POLICIES AND PROCEDURES

RECIPIENT ELIGIBILITY

The Family Benefits program policies and procedures are established by the Social Assistance and Employment Opportunities Division at the Ministry's head office. The program is delivered by approximately 850 caseworkers working out of 93 local offices which report to 12 area offices.

To be eligible for Family Benefits, an applicant must be a legal resident of Ontario and must fall into one of the eligibility categories defined in the *Family Benefits Act* and Regulation. These categories include sole support parents, the disabled, the elderly aged 60 to 64, parents of disabled children and participants in vocational rehabilitation training. Applicants must also demonstrate a need for assistance by providing evidence that their liquid assets and income levels do not exceed specified amounts.

Applications for benefits are received in the Ministry's local offices. An income maintenance officer (caseworker) will meet with the applicant to assess the application and obtain any required additional information. Information required at the time of application includes: proof of age, such as birth certificates for the applicant, a spouse and any dependants; proof of marital status; evidence of resident status; evidence of income and assets such as bank accounts; copies of relevant court orders, insurance policies, and so on; social insurance card; health cards for the applicant and any dependants; school records for dependent children; and evidence of accommodation costs.

Copies of certain documents verifying eligibility must be kept on file, while others require only visual verification by the caseworker. Visual verifications must be noted in the file.

An individual applying for assistance as a result of a medical disability must also have a doctor complete a medical report describing that person's condition. These reports may be reviewed by the Ministry's Medical Advisory Board, which provides advice to the Director of Income Maintenance on an applicant's eligibility.

Once an application for benefits has been granted, the Ministry is supposed to update the information in a recipient's file annually. In addition, it is the recipient's responsibility to inform the Ministry when any circumstances change which could affect the recipient's eligibility.

ENHANCED VERIFICATION

As a result of concerns noted in our 1992 report and a renewed emphasis on ensuring that only eligible individuals receive assistance and that the assistance is in the appropriate amount, the Ministry introduced the "enhanced verification" process in mid-1994. This process, which

includes a personal visit, emphasizes key file documentation requirements and is intended to foster in-depth reviews of cases to ensure that clients' eligibility for Family Benefits and the appropriateness of amounts paid are clearly established.

Complying with the enhanced verification process is mandatory when assessing the initial eligibility of new applicants. In addition, the enhanced verification process is to be completed for all ongoing recipients every second year. At the time of our audit in October 1995, the enhanced verification process had been in effect for approximately one year. Consequently, enhanced verification should have been completed for about half of the ongoing cases by that time.

Enhanced verification was completed for all new applicants whose files we reviewed. However, at the local offices we visited, information provided indicated that only 39% of the 40,000 files for ongoing cases that should have had enhanced verification reviews had received them.

In addition, two local offices we visited were not scheduling enhanced verification for ongoing files every second year as required. These offices carried out the enhanced verification process only for new applicants and ongoing recipients identified as high risk, such as those living with a co-resident or with dependent children 16 years of age or older. As a result of this practice, it is possible that some recipients may not be subjected to enhanced verification for prolonged periods of time. We noted that at these offices there was a backlog of 13,500 cases awaiting enhanced verification reviews, or 100% of the total caseload that should have been reviewed.

As a result of the backlogs in carrying out scheduled enhanced verification reviews, the Ministry cannot be assured that ongoing recipients are eligible and are receiving the correct amounts of assistance.

Recommendation:

In order to ensure that only eligible individuals receive assistance and that assistance is in the correct amount, the Ministry should establish adequate procedures to ensure that all local offices complete the enhanced verification process for each file as required by ministry policy.

Ministry Response:

The Ministry agrees that adequate procedures should be established to ensure that the enhanced verification process is completed at all local offices.

The Ministry has already introduced and recently (March 1996) fully implemented a process to monitor all ministry policies and procedures, including the enhanced verification process.

MAIL-OUT QUESTIONNAIRES

In the alternating years when enhanced verification procedures are not required to be performed on a recipient's file, each recipient is to receive a mail-out questionnaire which is to be used to update the information in the recipient's file. We found that the use of mail-out questionnaires was generally ineffective as the points below illustrate.

- Two local offices we visited were not regularly using the mail-out questionnaire in alternating years as required by ministry policy. As a result, information in many recipient files was not being updated on an annual basis, which could allow changes affecting a recipient's eligibility to go undetected.
- We noted some examples where information provided on the returned mail-out questionnaires was not reviewed and assessed by the caseworkers to ensure that recipients continued to be eligible for assistance and were being paid the appropriate amounts. For example, a recipient who turned 65 years old in 1988 started to report Old Age Security benefits as income on the 1990 and subsequent mail-out questionnaires. However, the reported income was not noticed by the caseworker until 1993, at which time the individual's Family Benefits were cancelled. However, the recipient received the full amount of assistance from 1988 through 1993 and was overpaid by \$31,000 during that time. Since this overpayment resulted from the caseworker's oversight, ministry policy deemed it an administrative overpayment, which is considered uncollectable, and it was subsequently written off. In addition, in some instances, missing, incomplete or contradictory information on the mail-out questionnaires was not followed up by the caseworker.

Recommendation:

In order to help ensure that correct amounts of assistance are paid to eligible recipients, the Ministry should monitor whether its local offices are complying with its requirements by:

- having Family Benefits recipients fill out and return, in alternating years, a questionnaire to update their files; and
- reviewing and assessing the information received from these questionnaires to determine the continued eligibility of each recipient and the appropriateness of the assistance being paid.

Ministry Response:

The Ministry will monitor that correct amounts of assistance are paid to eligible recipients by having program review officers (PROs) complete file reviews locally and report results and recommended action to the site being reviewed and to area office senior staff. Area managers will ensure that corrective action is taken if ministry policies are not complied with.

On a province-wide basis, the director of income maintenance monitors the social assistance program by receiving summaries of all PRO monitoring activity three times per year. The first of these rollups was received in March 1996. Improvements are being monitored centrally for appropriate results.

FILE DOCUMENTATION

We reviewed a representative sample of files for recipients who had been granted assistance since the introduction of the enhanced verification process as well as for recipients who had been receiving ongoing benefits since before that time.

We found that, in many instances, file documentation did not comply with the Ministry's requirements and was inadequate to establish the eligibility of the individual or the appropriateness of the amounts paid. More specifically, we found that:

- Forty-one percent of the files we reviewed for newly granted recipients were missing at least one piece of information necessary to establish eligibility or the correct amounts to be paid. Of these, approximately one half were missing at least one of the documents that should have been on file and approximately one half lacked notations for information that should have been visually verified.
- Similarly, 85% of the files reviewed for ongoing recipients lacked at least one piece of necessary information. Of these, 70% lacked at least one of the documents that should have been on file and 90% were missing notations for information that should have been visually verified.

Examples of our specific concerns are detailed below.

- Caseworkers are to make reasonable efforts to determine and visually verify a recipient's income and to follow up any potential discrepancies between income reported and actual income. However, in a number of cases, we found no evidence of such follow-up. As a result, the accuracy and completeness of the information about the income of these recipients was not established, and the actual allowance paid to them was therefore questionable. In addition, reported income is to be checked against an individual's income tax return. However, we noted that in most instances income tax returns were not being requested from recipients with income which is contrary to ministry policy.
- In order to establish the appropriate shelter allowance to be paid, verification procedures should determine accommodation costs incurred. However, we found that, for recipients whose files we reviewed, approximately \$165,000 had been paid in accommodation allowances although accommodation costs had not been verified.
- In our 1992 audit report, we noted that the Ministry had not been ensuring that recipients collected the Canada Pension Plan (CPP) disability pensions due to them, which would have resulted in corresponding reductions in their Family Benefits payments. In response to that report, the Ministry carried out a "blitz" whereby recipients likely to be eligible for CPP disability payments were identified and provided with assistance in completing CPP applications. Information from Health and Welfare Canada was also obtained to help establish or verify past and current eligibility of recipients for CPP disability pensions. As of March 1993, the Ministry estimated that its accumulated savings from the reduction in allowances to recipients eligible for CPP pensions was in excess of \$3 million to that date. Notwithstanding these savings, for 30% of the files for disabled recipients we reviewed, we found no evidence that the recipient's CPP eligibility had been investigated either at the time of application for Family Benefits or subsequent file updates.

We also noted that there is no financial incentive for recipients to apply for CPP disability pensions, since any CPP payments granted are deducted from their Family Benefits payments. Therefore, it is to the Ministry's benefit to ensure that eligible recipients apply for and receive the CPP pensions to which they are entitled.

Recommendations:

So that only eligible recipients receive Family Benefits and that the amounts of those Family Benefits are appropriate, the Ministry should ensure that all recipient files contain the information necessary to establish eligibility and the appropriate amounts to be paid.

Also, in order to reduce program expenditures, the Ministry should ensure that all recipients who are eligible for Canada Pension Plan disability benefits apply for them.

Ministry Response:

The enhanced verification (EV) process is continuing to be implemented on a province-wide basis. Once all case files are subjected to the EV process, files will contain the necessary information to document eligibility and entitlement criteria. Recipients who are eligible for Canada Pension Plan disability benefits will be required to apply for them.

Given the current workload demands and high caseload-to-worker ratios, the Ministry will also review the current EV policy around retaining documents on case files to determine if all of the requirements should be maintained.

BRING FORWARD NOTES

When necessary information is missing, either at the time of initial application or during subsequent annual information updates, the caseworker is to place a bring forward note on the case file and note it on the computerized Comprehensive Income Maintenance System (CIMS). The notation on CIMS is a reminder that outstanding information is to be received and reviewed by a specified future date. We found that this process was not working effectively as the points below illustrate.

- In some instances, bring forward notes were not prepared when necessary information was missing.
- Caseworkers were not following up the outstanding bring forward notes in CIMS on a timely basis. For example, for many of the files we reviewed, bring forward notes were still outstanding six months after their due dates. As at December 31, 1995, there were a total of approximately 110,000 bring forward notes outstanding in CIMS for all Family Benefits recipients. Half of these were initiated during 1994, and many dated back as far as April 1994.

As a result of missing information not being followed up on a timely basis, the eligibility of recipients and the appropriateness of amounts paid had not been established.

Recommendation:

In order to ensure that required information missing from recipient files is followed up in a timely manner, the Ministry should remind its staff that:

- bring forward notes are to be prepared in all instances where required information is missing; and
- outstanding bring forward notes are to be followed up and cleared on a timely basis.

Ministry Response:

The Ministry agrees that bring forward notes should be prepared when necessary and should be followed up on and cleared on a timely basis. The ministry local offices are already taking appropriate action on any outstanding bring forward notes.

New social assistance technology will contain automated features to facilitate and enhance the bring forward system as a monitoring tool and a caseload management tool.

FILE REVIEW

In response to our 1992 audit report, the Ministry stated that it had implemented procedures and monitoring practices for the delegation of decision-making authority to caseworkers. Specifically, it stated that income maintenance supervisors were expected to conduct a random review of 10% of each caseworker's files to a maximum of 25 files per caseworker per year. The intent of these reviews is to determine compliance with legislation and guidelines, timeliness of actions taken and adequacy of file documentation.

However, we were unable to find any documentation or other evidence that the required reviews had been completed. Furthermore, during discussions with staff, we were advised that supervisors' reviews vary in purpose and intent. For example, we were told that income maintenance supervisors only review files:

- where assistance was granted by new caseworkers, as part of their ongoing supervision;
- for which caseworkers seek their advice regarding complex issues; or
- in order to evaluate the performance of specific caseworkers as part of the annual performance appraisals process.

We were also advised that the extent of file review documentation may vary from nothing to the use of a standard form or checklist.

Recommendation:

To determine whether caseworkers perform their duties satisfactorily and maintain proper and up-to-date documentation, the Ministry should ensure that income maintenance supervisors review a representative sample of recipients' files for each caseworker and adequately and consistently document these reviews.

Ministry Response:

A standardized income maintenance supervisor (IMS) file review form and process have been developed and implemented to support consistent documentation of IMS reviews.

The Ministry has recently introduced IMS training which includes file review training on cases which are processed by income maintenance workers. By the fall of 1996, all IMSs will receive this new training.

File reviews will become part of the performance expectations for IMSs, and area office senior staff will monitor that this activity is being completed.

INFORMATION SHARING

The primary purpose for sharing recipient information with other provincial ministries or agencies, other provinces and the federal government is to help ensure that information provided to the Ministry is correct and that errors and omissions resulting in inappropriate or duplicate payments are prevented or detected. Independent confirmation of information provided promotes a more effective verification process when determining both initial and ongoing eligibility for assistance.

Although information with respect to a particular recipient may, on occasion, be shared or requested on a case-by-case basis, we understand that such occurrences were infrequent. As a result, there were no ongoing controls to ensure that *all* recipients were disclosing complete and accurate information and, for example, were not collecting other benefits such as unemployment insurance, workers' compensation benefits or other social assistance in another jurisdiction.

The benefits of routinely sharing and confirming information with other jurisdictions would, in our view, be significant. For example, in April 1993 one area office and the social assistance program in another province carried out a one-time computer match of their respective Family Benefits and Welfare recipient files to determine if any recipients were collecting assistance in both provinces. The results of the match indicated that 217 recipients were collecting benefits in both jurisdictions. Of these, it was determined that 149 were Ontario residents and 68 were residents of the other province. Assuming that the 149 Ontario residents were eligible to receive assistance in Ontario, the 68 non-Ontario residents fraudulently received benefits in Ontario estimated at over \$700,000 per year.

We also contacted two other provinces and were advised that information sharing between them has been in place for over a year. The program has been successful in that the instances of recipients collecting assistance in both provinces has decreased since the information sharing started.

We were advised by the Ministry that sharing information with other jurisdictions is a new initiative and agreements must be negotiated with legal, privacy, security, technology, business and other-party-cooperation considerations in mind. As at March 1, 1996, the Ministry was pursuing 15 information-sharing agreements: five with other Ontario ministries and agencies, seven with other provinces and three with the federal government. Of these, one agreement with the Ministry of Municipal Affairs and Housing had been completed but not yet implemented, and six agreements were in the draft stage.

Recommendation:

The Ministry should complete and implement information-sharing agreements with other benefit providers and jurisdictions at the earliest possible point in time.

Ministry Response:

The Ministry has placed a high priority on negotiating and implementing information-sharing agreements and will implement these as they are negotiated at the earliest possible point in time. However, the timely completion of these agreements is dependent upon the willingness of third parties to approach the task on a priority basis.

HOME REPAIRS

There are approximately 26,000 Family Benefits recipients who own their homes. The Family Benefits policy and procedural guidelines permit the Ministry to pay for any "urgent" or "emergency" repairs to homes "owned and occupied by a Family Benefits recipient." The intent of this policy is to ensure that necessary repairs are undertaken to permit recipients to continue to reside in their own homes. During the 1995/96 fiscal year the Ministry paid approximately \$1.9 million for home repairs.

In reviewing a sample of home repair expenditures, we found the following.

- The majority of proposed repairs were not inspected by the Ministry to determine their necessity, the extent of the repairs required or the reasonableness of the costs to be incurred. We were advised that the caseworkers place complete reliance on estimates submitted by the home owner or contractor to indicate the necessity, extent and cost of repairs required. We noted that one local office occasionally hired a consultant to inspect the necessity of repairs before they were approved.

- Some repairs which were approved were not “urgent” or “emergency” in nature. For example, in one case the Ministry paid \$900 for materials to replace a roof. One estimate obtained by the home owner indicated that the roof was decaying but there was no indication of leaking. The work was eventually done by the home owner who submitted a list of materials and their costs. The request for repairs was made, and subsequently paid, two weeks before the recipient turned 65 years old, at which time he would no longer qualify for Family Benefits or home repairs. The caseworker who approved the expenditure was aware that this was not an emergency repair and that the recipient would shortly become ineligible.
- In some instances, the Ministry paid for the replacement rather than repair of items. For example, we found that some roofs were replaced with no documentation on file as to why they could not be repaired. In one instance, as part of a \$5,200 roof replacement, structural changes to the roof were also made; these changes were not repairs as defined by ministry policy.

Other examples of replacing items instead of repairing them include: replacing a whole window for \$550 when only a pane of glass was broken; replacing a front entrance door for \$925 when only the frame was damaged; installing a new water treatment system costing \$2,300; and installing a new septic tank and sewage pump to an existing tile bed for \$4,600.

- In one case, the Ministry paid for a repair when the recipient was not the owner of the home. In addition, the Ministry also paid for the full cost of repairs to homes that were not solely owned by Family Benefits recipients.

Since the term “owned” is not defined, the local offices had differing practices. In some offices, the repair costs were pro-rated in proportion to the recipient’s ownership while in others the full amount of the repair costs was paid.

- In a number of instances, repairs were paid for based on quotations instead of supporting invoices.

Recommendation:

To ensure that it makes only reasonable and necessary payments for home repairs, the Ministry should:

- clearly define the meaning of the terms “urgent,” “emergency repairs” and “owned and occupied premises” as used in the Ministry’s policy;
- determine the necessity for and the reasonableness of major repair costs to be incurred before any repairs are approved; and
- pay only amounts supported by invoices.

Ministry Response:

The Ministry will clarify the terms “urgent,” “emergency repairs,” “owned/occupied premises” and will communicate these to area offices. The Ministry will also remind area offices that amounts paid should be supported by invoices.

The Ministry will ask area offices to give consideration to using specialized expertise when processing high cost home repair requests to determine the necessity for and the reasonableness of major repair costs.

SUBROGATION OF OUTSTANDING LEGAL CLAIMS

An individual who receives Family Benefits as a result of a disability caused by the negligence or wrongful act of others may be able to obtain compensation from those found responsible for its cause. In that regard, the *Ministry of Community and Social Services Act* allows the Ministry to recover its expenditures on behalf of a disabled recipient, either from the party legally responsible or by subrogating the Family Benefits recipient's legal claim.

However, for the files we reviewed where disabled recipients had outstanding legal claims, subrogation had not occurred. For example, we reviewed one case where a disabled recipient was granted Family Benefits in April 1988. The recipient's disability resulted from an accident for which the individual was pursuing an insurance settlement. We noted that the caseworker made a note to this effect when updating the file in December 1992. However, this file was not identified as a potential case for subrogation nor was it referred to the Ministry's Legal Services Branch for pursuit. Consequently, although the recipient received a final settlement of \$176,000 in April 1995, the Ministry was not in a position to pursue the approximately \$60,000 it had paid in Family Benefits to this recipient for the period covered by the insurance settlement.

Recommendation:

The Ministry should identify all individuals who receive Family Benefits as the result of an acquired disability for which they have outstanding legal claims and subrogate those claims for the amounts of Family Benefits paid, as required by ministry policy.

Ministry Response:

The Ministry has identified this area as requiring improvements, and in February 1996 communicated to area offices highlighting the importance of timely and accurate completion of assignments in cases that have outstanding legal claims. Accurate and timely completion of these assignments will ensure that the Ministry recovers any monies owing.

Specific staff training needs required in this area have already been identified by the Ministry and will be incorporated into the ministry corporate training package.

SPOUSAL AND CHILD SUPPORT

During the 1995/96 fiscal year, the Ministry paid approximately \$1.2 billion in Family Benefits to over 126,000 sole support parents. We estimate that during the same year, approximately 35,000 of these recipients received almost \$100 million in spousal and child support payments which were deducted from their allowances.

The *Family Benefits Act* requires a sole support parent to make all reasonable efforts to pursue spousal and/or child support. Caseworkers are responsible for reviewing the reasonableness of these efforts when assessing the initial and continuing eligibility of a sole support parent. If efforts are deemed inadequate, the caseworker must indicate in writing what steps the recipient must take to satisfy the legislative requirement in order to avoid a reduction in allowance or being deemed ineligible altogether.

Ministry policy allows for circumstances where it is not reasonable to expect a recipient to pursue support. A caseworker may waive the obligation to pursue support when the recipient's spouse: cannot be located; is receiving social assistance or is unemployed and unlikely to be able to pay support; is unable to make reasonable payments because of other support obligations; is serving a sentence in a penal institution; or is likely to be physically violent if support is pursued.

In making this decision, the caseworker must review the individual circumstances of each case and, wherever possible, verify that the information provided by the recipient is accurate. If the caseworker requires assistance in making a decision, the case may be referred to a parental support worker. In any event, the caseworker is still responsible for monitoring the progress of the case and documenting the rationale behind any decision to waive the recipient's obligation to pursue support.

When a recipient receives irregular support payments from the spouse and the situation is likely to continue, the support payments may be assigned directly to the Ministry. In these cases, the recipient will receive the full Family Benefits assistance and the Ministry will attempt to obtain the support payment. To do this, the Ministry sends the assignment to the Family Support Plan unit at the Ministry of the Attorney General for collection from the recipient's spouse. The Family Support Plan unit estimated that as of December 1995 approximately \$300 million of Family Benefits assignments were in arrears.

We reviewed a sample of active sole support parent cases for which no support is currently being received to assess whether the decisions to waive support were reasonable and adequately documented.

For the majority of the recipient files we reviewed, the documentation supporting caseworkers' decisions to waive a recipient's obligation to pursue support was inadequate. Except for completing the "Declaration of Support/Maintenance" form, there was no evidence on file to indicate that the caseworker had either initially or periodically verified whether the decision to waive support requirements was warranted.

For example, in those cases where the recipient's obligation to pursue support was waived on the grounds that the spouse was also on social assistance, we found no evidence on file that this had been confirmed. Using information documented in these files, we searched the Ministry's records to confirm that the spouse in question was indeed on social assistance. In 60% of these

cases, we could not find a match in the system to either confirm or dispel the recipients' declarations.

However, for the remaining 40% of these cases, we confirmed that information in the system indicated that the recipients' spouses had been removed from social assistance during the period in question due to high income levels. None of the files in these cases had been updated with this readily available information, and no actions had been taken by the caseworkers to confirm whether or not support should have been waived.

The degree of review a caseworker performs when assessing the adequacy of a recipient's efforts to pursue support is a function of the caseworker's own professional judgment and ability. This leads to inconsistent practices and a lack of assurance that all cases of possible support are being pursued.

3.04

Recommendation:

In order to promote compliance with its requirement that sole support parents actively pursue spousal and child support, the Ministry should ensure that caseworkers:

- **adequately document the factors considered and verified in reaching a decision to waive spousal or child support; and**
- **periodically review their decisions to waive a sole support parent's obligation to seek spousal or child support.**

Ministry Response:

Area offices are currently reviewing the need for specific training relating to current policy and procedures in this area. Where it has been identified as being required, area offices have already begun to provide this training. Staff will also be reminded of current policy for documentation and decision making in cases where spousal or child support is waived. Through program review officer reviews and income maintenance supervisor file reviews, the Ministry will monitor that caseworkers adequately document the factors considered and verified in reaching a decision to waive spousal or child support.

The Ministry agrees that periodic reviews of the decisions to waive support should be completed and will be adding this expectation to the enhanced verification process already in place.

DUE REGARD FOR ECONOMY AND EFFICIENCY

OVERPAYMENTS

Overpayments occur when allowances paid exceed the amounts recipients are entitled to receive. Overpayments that arise as a result of recipients failing to report changes in personal or family circumstances, or misrepresenting facts, are considered recoverable by the Ministry. Overpayments arising as a result of Ministry errors are not considered recoverable and are to be written off.

Recoverable overpayments to active recipients are normally recovered at the rate of a 5% reduction from the recipient's monthly entitlement until the full amount is repaid. In some cases, the reduction may be lowered to avoid financial hardship. We noted that interest is not charged on outstanding balances.

For overpayments to be recovered from former recipients, the Ministry attempts to negotiate a repayment schedule agreeable to both parties. If an agreement cannot be reached or if repayments fall into default for more than 60 days, the overpayment is to be referred to the Central Collection Services of the Management Board of Cabinet. Ministry policy states that amounts due from recipients who have died with no estate or for overpayments not acknowledged for more than two years are to be written off.

As at March 31, 1996 recoverable overpayments totalled over \$368 million, which represents an increase of 163% since the time of our last report in 1992. Of this amount, \$155 million was due from active recipients and \$213 million was due from former recipients. In addition, approximately \$30 million in overpayments has been written off in the past four years.

The Ministry's practice is also to write off any overpayment where supporting documentation is unavailable or inadequate to substantiate the amount. Consequently, it is essential that case-workers maintain adequate documentation of all the information and factors considered in establishing the reasons for the overpayment and in calculating the amount to be recovered.

However, our review of a sample of files with recoverable overpayments found that the reasons for the overpayments and the calculations of the amounts to be recovered were often poorly documented and, in some cases, were not documented at all.

In our 1992 audit report, we found that the Ministry's collection efforts were inadequate. In response to that report, the Ministry indicated that it would increase its efforts to recover overpayments from former recipients, and where efforts were unsuccessful, transfer the accounts to Central Collection Services. However, we found that collection efforts still require improvement as the following points illustrate.

- There were 20,000 former recipients with outstanding overpayments totalling \$76 million who had not made a payment in over 60 days although a collection letter from the Ministry was being sent every 30 days. These files should have been transferred to Central Collection Services for collection, but were not. Of these, 10,000 were former recipients with outstanding overpayments totalling over \$30 million who had not made a payment in over two years; the amounts of their overpayments should have been considered for write-off.

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- There were also 34,000 former recipients with outstanding overpayments totalling \$142 million who did not have “last payment dates” on file, indicating that no payments had been received since their benefits were cancelled. We were unable to determine the age of these outstanding amounts or whether they should have been transferred to Central Collection Services for collection or considered for write-off.

We also noted that the Ministry’s policy of recovering overpayments from current recipients at the rate of 5% of the current allowances was ineffective, since, in the cases we reviewed, it will take an average of over 18 years to recover the full amount.

Recommendation:

The Ministry should improve its efforts to recover overpayments by ensuring that:

- caseworkers adequately document in the recipient’s file both the reason for the overpayment and the calculation of its amount; and
- overpayments for which no repayment agreement has been reached or for which a payment is more than 60 days overdue are transferred to Central Collection Services on a timely basis.

Ministry Response:

The Ministry will reinforce the current file documentation requirements for overpayments in terms of reason for the overpayment and the calculation of its amount.

The government, through Management Board Secretariat, is establishing a new process for the collection of overpayments for which no repayment agreement has been reached to improve and maximize the collection process. The Ministry is participating in the development of the new improved process.

FRAUD PREVENTION AND DETECTION

The Ministry has 139 eligibility review officers who are responsible for gathering and investigating information to be used in eligibility decisions for files referred to them by caseworkers and from civil proceedings and criminal prosecutions. Issues or information frequently investigated include undisclosed income or assets, ineligible dependants and individuals not living as sole support parents. Eligibility review officers are also expected to play an active role in identifying and analyzing patterns of fraud which could be used to identify high risk files.

In October 1995 the Ministry also established a “welfare fraud hotline” which may be used by anyone to report to the Ministry potential cases of Family Benefits fraud. When fraud is de-

tected in a file, the Ministry makes no attempt to identify similar cases as high risk. As a result, we believe the Ministry can be much more pro-active in identifying high risk cases.

Because fraud is by nature hidden, it is difficult for the Ministry to accurately quantify the extent of fraud in its system. A 1987 study for the Social Assistance Review Committee reported that the level of fraud in social assistance programs was around 3%. Applying this percentage to Family Benefits payments of approximately \$3.4 billion today would indicate a loss through fraud of approximately \$100 million for the 1995/96 fiscal year.

Past reports have estimated varying levels of fraud and client error. While the Ministry no longer supports a particular fraud projection, we were advised that it will continue to monitor the results of its fraud control initiatives, such as the welfare fraud hotline.

We also noted that even when a fraud is uncovered and successfully prosecuted by the Ministry, the recipient suffers no adverse effects with regard to eligibility. As long as recipients meet the Ministry's eligibility criteria for assistance, they can continue to receive Family Benefits.

Recommendations:

The Ministry should be more pro-active in identifying cases at high risk of fraud and should investigate such cases before specific suspicious concerns are reported.

Ministry Response:

The Ministry has recently been more pro-active in dealing with fraud on a number of initiatives. Applying the enhanced verification process to all new cases coming onto social assistance will help to reduce the likelihood of fraud. Initiatives such as the priority verification process list criteria which help to identify cases where there may be a higher risk of fraud. These cases are first to be reviewed and investigated if appropriate. This government also introduced a fraud hotline which processes all incoming fraud-related allegations for follow-up and action where warranted.

STAFFING

In our 1992 audit we noted that a ministry staffing study concluded that service to recipients could be effectively met with a caseload standard of 275 recipients per caseworker. The study also observed that for every case above 275, progressively more functions would go undone, to a point where, with a caseload of more than 375, only 25% of the critical functions could be completed.

During the 1995/96 fiscal year, the Ministry had approximately 850 caseworkers who administered over 328,000 Family Benefits files, or an average of 385 files per caseworker. For the local offices we visited, average caseloads per worker ranged from 307 to 471. This is signifi-

cantly higher than the Ministry's standard and the average of 320 files per caseworker reported in our 1992 audit.

This situation is particularly worrisome in view of the many file deficiencies we noted and the increased work and risks inherent in the many policy changes the program has undergone in the past two years.

Recommendation:

In light of changing program requirements, the Ministry should establish and adhere to reasonable workload standards to enable caseworkers to perform their work more satisfactorily.

Ministry Response:

Given the current economic climate, the Ministry is not considering significantly increasing the number of staff; however, the Ministry is looking at different models of service delivery and the benefits of technology. Within the social assistance reform process, future workload standards and service levels will be reviewed.

PERFORMANCE MEASUREMENT

Program review officers in the area offices are responsible for monitoring the delivery of the Family Benefits program. In March 1995, to assist in this task, the Ministry issued the *Social Assistance Monitoring Resource Guide* which states the objectives and standards for monitoring and evaluating program delivery. It also introduced standard review procedures, report-writing format and content, and procedures for central reporting on reviews planned and completed.

By the end of our audit in February 1996, reviews by program review officers had not yet been completed following the new procedures outlined in the *Guide*. We were informed that the Ministry had planned a one-year implementation schedule for the those procedures and that reviews following the new procedures would begin in the spring of 1996.

Our review of the *Guide* revealed that it is essentially a step-by-step manual for program reviews and does not include indicators for monitoring and evaluating program delivery.

We were advised that in May 1996 the Ministry will review the *Guide* with the program review officers and make any changes necessary to update and enhance it. We were further advised that the Ministry will develop indicators for program monitoring and evaluation separate from the *Guide*.

We will follow up on the Ministry's efforts to develop program monitoring and evaluation indicators at an appropriate time.

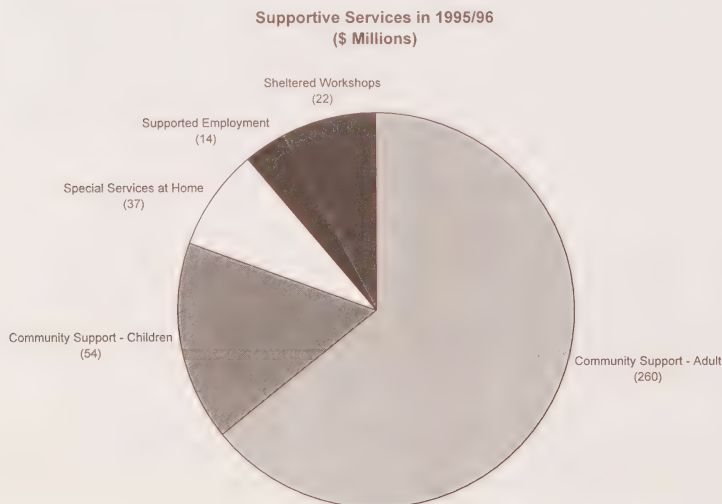
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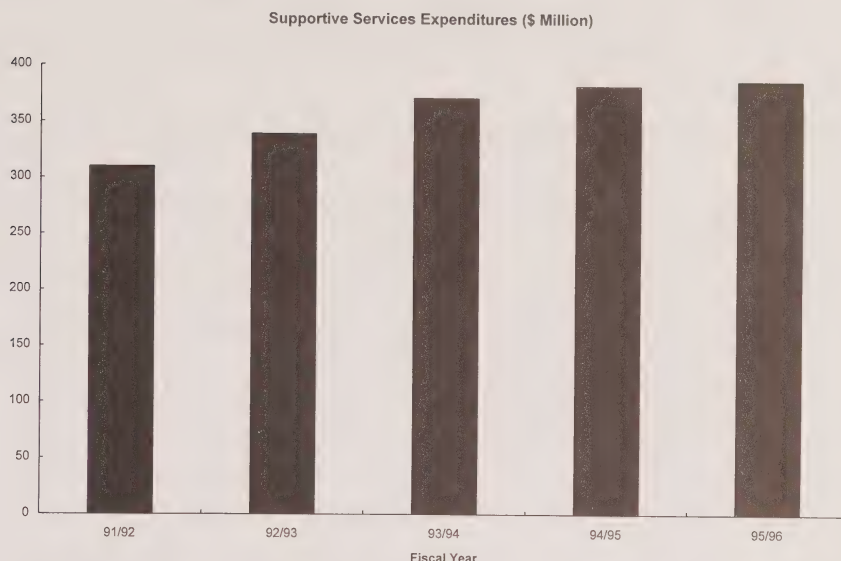
Supportive Services

The Supportive Services Program of the Ministry of Community and Social Services provides transfer payments under the *Developmental Services Act* and the *Child and Family Services Act* to approximately 350 community based non-profit agencies. These agencies are administered by volunteer boards of directors that are independent of the Ministry. Approximately 44,000 people with developmental disabilities are provided with a range of supportive services, including:

- life skills training;
- supported independent living programs, which aid individuals who live on their own or in shared accommodations;
- social and recreational programs;
- speech and language therapy;
- assessment and counselling; and
- parent relief.

For the 1995/96 fiscal year, the Ministry's transfer payments for Supportive Services totalled \$387 million. A summary of the types of programs funded for the 1995/96 fiscal year and comparative expenditures for the Program over the last five years are as follows:





Source: Ministry of Community and Social Services

OBJECTIVES AND SCOPE

Our audit objectives were to assess whether the Ministry's administrative procedures were adequate to ensure that:

- transfer payments to agencies were reasonable and satisfactorily controlled; and
- the quality of services provided was monitored and assessed.

The scope of our audit included a review and analysis of the Ministry's administrative procedures, as well as interviews with appropriate head office, area office and agency staff. We also reviewed a representative sample of agency files at the Ministry's area offices and visited agency facilities where warranted.

Our audit concentrated on agencies providing Community Support Services for Adults and Children as these programs constituted the majority of the Supportive Services expenditures. We also reviewed payments for the Special Services at Home program.

Our audit also included a review of the audit reports issued by the Ministry's Comprehensive Audit and Investigations Branch. However, we were unable to reduce the scope of our audit work since the Branch had not issued any reports on the overall administration of the Supportive Services Program in the last two years, but had performed different work instead.

OVERALL AUDIT OBSERVATIONS

We found that the Ministry's administrative procedures did not adequately ensure that transfer payments to agencies were reasonable, or that services purchased were monitored to ensure that the Ministry was receiving value for money spent. Specifically, corrective action by the Ministry is required to ensure that:

- funding decisions are based on sufficiently detailed, relevant and timely information from the agencies;
- historical funding inequities are not perpetuated through repeated annual across-the-board percentage funding changes;
- the reasonableness of the cost of similar programs funded either within or between different area offices is analyzed and assessed;
- program surpluses are identified and recovered on a timely basis; and
- service contracts specify any mandatory administrative policies and procedures required to assist agencies in obtaining value for money spent.

Regarding the monitoring and assessment of the quality of services provided, improved procedures are required to ensure that:

- individuals are placed in appropriate programs that can meet their needs cost effectively; and
- acceptable standards for the levels and quality of services provided are defined and subsequently monitored and assessed.

With respect to the Special Services at Home program, we found that the program's administrative procedures required strengthening to ensure that:

- information provided by applicants is verified or assessed for program eligibility at the time of initial application and at agreement renewal; and
- the correlation between the amount of funding provided to individuals and the factors assessed in the funding decision is documented.

DETAILED AUDIT OBSERVATIONS

SUPPORTIVE SERVICES TRANSFER PAYMENTS

BUDGET REQUESTS

As part of the annual financial planning and budgeting process, agencies are to submit a standardized budget request package for the Ministry's consideration by August 31, five months into the fiscal year to which it applies. The budget package is to include a detailed description of each program for which funding is requested; the number of clients each program expects to serve; the program funding requested; and other information such as the number of employees associated with the program and salary levels by position.

Before final funding approval is given, the budget request is to be reviewed taking into consideration other factors such as the previous years' expenditure reconciliation, other information available to the Ministry and any government directives.

We found a number of deficiencies in the 1994/95 budget submissions of the agencies we selected for review.

- Program descriptions often did not provide sufficient detail for assessing the levels of service provided, despite the potential for significant variability within and between similar programs.
- A number of budget submissions combined several different programs in one program budget request. For example, one agency submitted a consolidated program budget for 25 different programs which lacked sufficient detail with respect to the nature and extent of services provided by each program.
- Some budget submissions included inaccurate information regarding the number of clients that a program was expected to serve, while others did not include any client numbers at all.
- In some instances, staff attributed to one program worked in another unrelated program.
- Most budget requests were not received until November, eight months into the fiscal year.

As a result, the Ministry lacked sufficiently detailed and relevant information for making informed and timely program funding decisions.

From our review of agency budget submissions and other work performed at the agencies, we noted a number of questionable funding arrangements. For example, in 1994/95 an agency was allocated an additional \$125,000 to apply against its deficit and to expand service. We found no evidence that expansion of the programs occurred. In addition, our review of the financial statements revealed that the agency had an overall accumulated surplus of over \$450,000, some of which was attributed to prior years' ministry funding. Ministry staff were unable to explain why funds were given to the agency to apply against its "deficit" when a deficit did not exist.

Recommendation:

In order to help provide an appropriate basis for making funding decisions and to help ensure that actual expenditures are appropriate, the Ministry should ensure that all agencies include sufficiently detailed and accurate information in their program budget submissions and submit them for analysis on a timely basis.

Ministry Response:

A revised generic service/budget submission package was introduced for 1995/96 which will ensure that agencies include the information that is required in their budget submissions.

The government's estimates process influences the timeframe for the negotiation and approval of agency budgets. The evergreen clause of the legal agreement allows agencies to continue to operate until a new budget is negotiated.

ANNUAL PERCENTAGE FUNDING DECREASES

Standard across-the-board funding decreases were imposed on most agencies for 1993/94 and subsequent fiscal years, even though they were required to continue submitting their normal budget request package. These decreases resulted from the *Social Contract Act* and other government constraints.

The across-the-board percentage decreases in funding were imposed in most cases without a review of the agencies' prior year's surpluses or deficits, or changes in service demands. In many instances, the merits of these decreases were questionable and only served to perpetuate previous funding inequities. The following examples illustrate our concerns.

- The standard 1.1% funding decrease for 1994/95 totalled \$213,000 for one agency's programs even though the net surplus for these programs was \$402,000 in the previous year.
- The standard 1.1% and 2.5% funding decreases for 1994/95 and 1995/96 were imposed on four programs operated by three different agencies; however, the agencies reported that the programs operated at only 46% to 83% of their prior year's planned capacity.

Recommendation:

In order to ensure that annual funding decisions are appropriate, the Ministry should take into consideration a program's prior years' financial performance and changes in demand for program services.

Ministry Response:

The Ministry will consider a program's prior years' financial performance and changes in demand for program services when making annual funding decisions.

PROGRAM COST COMPARISONS

Analyzing the costs of similar programs funded, within and between different area offices, would assist in ensuring that the programs are funded consistently across the province, and would help to identify programs that are not being operated economically and efficiently.

However, we found that the Ministry does not compare, or otherwise analyze, the costs of programs. For the agencies reviewed, our cost comparisons of similarly-named programs as noted below revealed significant variations.

Type of Program	Annual Funding Per Client (\$)
Supported Independent Living	9,900-62,900
Life Skills Training	4,700-28,000
Day Program	21,900-37,100
Respite Care	1,600-10,600

Since the cost per client is expected to vary with client needs and the extent of services provided, the above-noted range of costs may well be justified. However, Ministry staff lacked the information necessary to determine the reasonableness of either the range of the costs or the costs of individual programs.

Recommendation:

In order to ensure that program funding is reasonable and consistent, the Ministry should analyze and compare the costs of similar programs across the province. Significant variances in costs should be explained and justified.

Ministry Response:

The Ministry is aware that there is a range in funding for individuals with similar needs and that there is a need to rationalize service costs in support of individuals.

The Ministry has been developing and testing an assessment tool to measure how resources are currently being used for individuals in accommodation programs. The information collected will lead to funding ranges being established for categories of residential support through the winter of 1996/97.

FUNDING CLASSIFICATION

Group homes for the developmentally handicapped are normally funded under the *Homes for Retarded Persons Act*. This Act funds group homes at 80% of their cost and imposes certain licensing and inspection requirements designed to ensure that health and safety standards are met.

However, we found that a number of agencies operating group homes were being funded under the supported independent living or life skills programs of the Supportive Services Program. These programs come under the *Developmental Services Act* which funds 100% of the cost of a program and does not have any inspection or licensing requirements. In addition, we also found an instance where the 20% unfunded cost for an agency's group homes funded under the

Homes for Retarded Persons Act was funded using day program funding obtained under the *Developmental Services Act*.

By also funding group homes under *Developmental Service Act* programs, the Ministry is not required to adhere to the funding restrictions and licensing and inspection procedures required under the *Homes for Retarded Persons Act*. We noted that one of the area offices we visited has recognized this situation and is inspecting group homes irrespective of the source of their funding.

Recommendation:

To ensure equitable treatment and consistent compliance with legislation, all group homes for the developmentally handicapped should be funded under the same legislation.

Ministry Response:

The Ministry recognizes that the Homes for Retarded Persons Act is no longer adequate by itself to support Developmental Services operations. The Ministry will take steps to clarify and simplify the consistent application of legislation, regulations and funding mechanisms.

ANNUAL PROGRAM EXPENDITURE RECONCILIATIONS

Agencies are required to submit an Annual Program Expenditure Reconciliation (APER) for each program funded, together with audited agency financial statements, no later than four months after the fiscal year-end. The APER is to reconcile a program's total expenditure with the approved budget and identify a surplus, if any.

The Ministry may approve the retention of an agency's program surplus funds in four circumstances: to offset deficits in other programs; to meet critical one-time service requirements; to undertake health and safety initiatives; or to restructure and streamline operations. Where an operating surplus is to be recovered, Ministry policy states that recovery procedures must be underway no later than 12 months after the fiscal year-end and be completed within 24 months of the year-end.

We found that the agencies generally submitted their APERs and audited financial statements on a timely basis. However, two of the three offices we visited did not review and approve the APERs within 12 months of the year-end as required. For example, 55% and 46% of the agencies reporting to these two offices did not have their 1993/94 APERs reviewed and approved at the time of our audit in late 1995. Similarly, almost half the agencies in one of these offices had unreconciled APERs for the 1992/93 and 1991/92 fiscal years.

At the time of our audit, the three area offices that we visited had identified approximately \$6.2 million in surplus funding dating back as far as 1991/92. Of this amount, \$600,000 had been repaid to the Ministry, \$3.8 million had been approved for retention by the agencies and \$1.8

million remained unrecovered. Of the latter amount, \$1.3 million had been outstanding for over two years.

Even in those cases where APER reconciliations had been completed and approved, the effectiveness of the process was questionable.

- Program staff often assumed that the finance area had analyzed the agencies' financial statements and vice versa, with the result that the financial statements were often not analyzed at all. For example, our review revealed an instance where an ineligible expenditure of \$110,000 was not detected.
- Agencies often submitted consolidated financial statements for all of their programs and activities which provided insufficient detail and could not be reconciled with program expenditures or with the approved budgets for the individual programs.
- Although the APERs compare a program's total expenditures to total budget, they do not include a comparison of the actual costs incurred to the program's budgeted cost categories which, in our view, would have provided invaluable information for future funding decisions.

Recommendation:

In order to improve the effectiveness of the expenditure reconciliation process in supporting funding decisions:

- the information submitted by agencies should be sufficiently detailed to permit the reconciliation of the program expenditures and approved budgets with the audited financial statements; and
- the reconciliations should be reviewed and approved, and recoverable surpluses, if any, should be recovered on a timely basis by the Ministry.

Ministry Response:

The Ministry has developed a recording and tracking system to monitor the Annual Program Expenditure Reconciliation (APER) process which will facilitate the provision of information by local management to corporate offices of the Ministry. As of June 1996, one hundred percent of the APERs have been completed for the 1992/93 fiscal year. Eighty-eight percent of APERs have been completed for the 1993/94 fiscal year. The 1994/95 APER reconciliations are under way.

ACCOUNTABILITY FRAMEWORK

In order to hold transfer payment recipients accountable for their management of public funds, a Management Board Directive on Transfer Payment Accountability prescribes a framework with four key requirements: setting expectations, contracting for services, timely reporting of results achieved and taking corrective action when necessary.

Implementing an effective administrative framework is particularly important for agencies in the Supportive Services Program, since they are administered by independent, volunteer boards of directors, but in most cases are funded primarily by the Ministry. As a result, an effective accountability framework has to clearly establish the boards of directors' responsibilities and their accountability for the use of funds.

The Ministry has recognized the need to strengthen the accountability relationship with transfer payment agencies for some time. In November 1991 the Ministry initiated the *Developmental Services Accountability Project* which attempted to address the Management Board Directive requirements. We understand that this project has since been delayed until the Ministry develops a ministry-wide accountability framework.

Notwithstanding the Ministry's earlier efforts, we had a number of concerns with respect to the implementation of the Management Board Directive on Transfer Payment Accountability.

- Service agreements did not establish measurable expectations for either program delivery or the acceptable implementation of administrative policies and procedures. Common administrative requirements for areas such as purchasing and personnel administration ought to be established to encourage consistency among agencies and be designed to encourage agencies to follow prudent management practices in order to obtain value for money spent.
- In the absence of meaningful and measurable program and administrative goals, agencies in most cases did not report results achieved and therefore the need for corrective action was not known.

Recommendation:

The Ministry should:

- strengthen its implementation of the Management Board Directive on Transfer Payment Accountability in order to hold the transfer payment agencies accountable for their management of public funds; and
- review the governance structure over agencies with a view to clarifying the boards of directors' responsibilities and their accountability for the appropriate use of funds.

Ministry Response:

The Ministry has tested various contracting mechanisms from the Developmental Services accountability initiative which, once refined and implemented, will address accountability issues in transfer payment and directly-operated operations.

Full implementation of the accountability initiative will result in the setting of expectations, improved contracting mechanisms, improved reporting and monitoring mechanisms and corrective action taken by the Ministry if appropriate. The accountability initiative will be phased in over a 30-month period.

Governance policy, which is currently being drafted, will clarify the Ministry's expectations of boards of directors.

MONITORING OF SERVICES PROVIDED

PROGRAM PLACEMENTS FOR INDIVIDUALS

Many of the Supportive Services agencies and programs owe their beginnings to dedicated groups of people who initially provided services on a voluntary basis. These services have expanded over time based on local needs and a general trend towards community-based care. Today's programs continue to be administered by agencies with volunteer boards of directors that are independent of the Ministry while the Ministry provides a substantial amount of funding.

Responsibilities of the agencies' boards of directors include deciding on the types of services to be offered based on local needs, selecting appropriate service models and, perhaps most importantly, establishing and implementing program admission criteria. In view of the wide range and costs of services offered, ensuring that individuals are placed in appropriate programs is essential for maximizing their potential and ultimately for controlling costs.

However, defining appropriate programs and levels of service for individuals is complicated by the qualitative nature of many of the decisions that have to be made and by the lack of clear ministry policy or directives. Additionally, in spite of the substantial funding it provides, the Ministry had not established procedures to monitor and ensure that individuals are receiving cost-effective services. For example, we noted a number of instances where severely handicapped individuals were in community-based residential and developmental programs whose appropriateness or cost-effectiveness relative to their needs had not been established.

Recommendation:

In order to ensure that individuals receive cost-effective services, the Ministry should:

- define appropriate levels of service to be provided to individuals; and
- establish criteria for, and monitor, program admissions.

Ministry Response:

An assessment tool to measure how resources are currently being used for individuals in accommodation programs is being developed and tested. The information will lead to funding ranges being established for categories of support.

The Ministry, in the context of its governance initiatives, continues to set the expectations that transfer payment agencies develop program placement policies which are in compliance with government legislation.

QUALITY OF SERVICE

Establishing standards for, and monitoring the quality of, the services provided by individual programs is essential for assessing both the appropriateness of the services provided and the reasonableness of the underlying costs incurred. Consequently, there should be clear agreement between the Ministry and the agencies as to what constitutes an acceptable quality of service and what criteria should be used for evaluating it.

Given the diversity of the programs being funded, it is a difficult task to establish service standards and evaluate the acceptability of the services provided. While it could be argued that quality of service issues are unique to particular programs, certain criteria are common to all programs, as for example, staff ratios and qualifications, periodic assessments of the program methodology and, ultimately, program outcomes.

However, based on our review of program files and discussions with appropriate staff, we found that acceptable standards of service had not been defined and that the quality of service provided had not been assessed. Consequently, there was no assurance that the services provided were of acceptable quality or that value for money had been received.

Recommendation:

In order to ensure that it is receiving value for the money spent, the Ministry should:

- establish acceptable standards of service and criteria for evaluating service quality; and
- on a periodic basis, evaluate the quality of the services provided.

Ministry Response:

The Ministry has taken steps to ensure that it is receiving value for money by implementing the Developmental Services accountability initiative. This initiative will result in improved service quality, service standards, a governance policy and a review process.

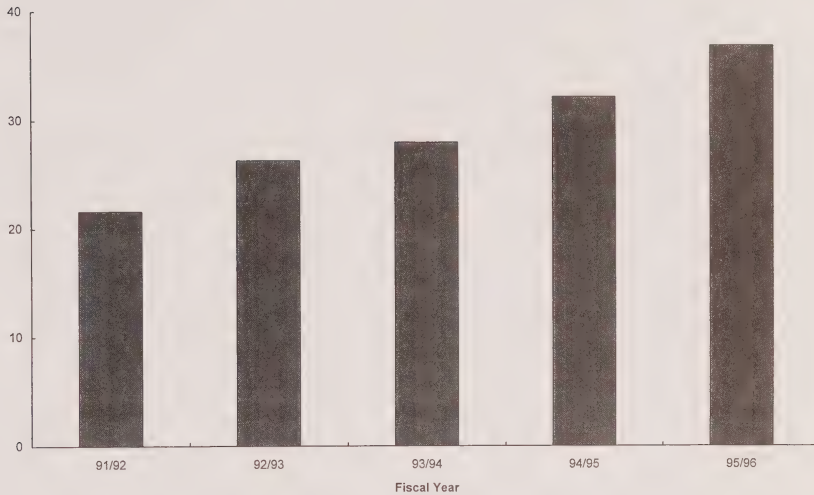
SPECIAL SERVICES AT HOME (SSAH)

Initiated in 1982 the Special Services at Home program is intended to provide direct financial support to disabled individuals living at home with their families and to families caring for disabled members who require services beyond the care normally provided by the family. The program has been cited as a model for individualized consumer-directed funding that has the potential for much broader application in the future.

The funding provided is to be used to purchase services, which are not otherwise available in the community and which can be broadly described as personal development and growth or family relief and support. Families enter into a renewable funding agreement with the Ministry

for a period not to exceed one year. During the 1995/96 fiscal year, approximately 10,500 families received support totalling \$36.9 million. Comparative expenditures over the last five years are as detailed below:

Special Services at Home Expenditures (\$ Million)



Source: Ministry of Community and Social Services

PROGRAM ELIGIBILITY

Program funding eligibility is restricted to children who have a developmental or physical disability, and to adults with a developmental disability, provided that they:

- are residents of Ontario;
- are living at home with their families;
- have ongoing functional limitations as a result of their disability; and
- require support beyond that normally provided by the family.

Eligibility is assessed based on information provided on the application form. However, our audit revealed that in most instances there was no evidence that the information provided had been verified or assessed for program eligibility either at the time of initial application or the agreement renewal.

- None of the files that we reviewed contained any documentation that residency was verified. We found an instance where Canada Customs informed the Ministry that a United States resident was sending SSAH invoices to a family member in Ontario for submission to and reimbursement by the Ministry. The Ministry stopped payments when notified of this situation.
- Medical assessments verifying applicants' disabilities were received at the time of initial application as required. However, most of the files that we reviewed did not have updated medical assessments at the time of contract renewals, despite the fact that the Ministry's program guidelines state that receiving updates would be a good management practice.
- While applicants are to be funded for services which are not otherwise available in the community, there was no evidence on file indicating which services were available in the community or whether they were being used.
- Although applicants must need support beyond a family's normal responsibility to be eligible, there are no definitions or other guidance to ensure consistency in assessing the need for support. In fact, in two of three area offices visited, we found that the assessment of individuals' needs was not documented.

In addition, funding agreements do not require recipients to inform the Ministry of any changes in circumstances that could affect their eligibility or the appropriateness of the amounts paid. We understand that this prevents the Ministry from recovering overpayments resulting from unreported changes in circumstances.

Recommendation:

In order to ensure and demonstrate that only eligible individuals receive support, the Ministry should:

- **verify information provided by applicants;**
- **adequately document the assessment of each applicant's needs; and**
- **require recipients to report changes in their circumstances which could affect their eligibility.**

Ministry Response:

Documentation by a registered psychologist or a physician is required at the time of initial application to substantiate the presence of a developmental or physical disability. The Ministry has procedures in place to ensure that eligible individuals and families receive funding from the Special Services at Home program at the time of application. Additional verification of applicant information is completed on an exception basis.

FUNDING APPROVALS

According to the SSAH guidelines, area offices should ensure that funding is commensurate with an applicant's needs and applicants with similar needs should receive similar levels of

funding. In determining the amount of funding to be provided, the Ministry is to consider the following factors for each applicant:

- service needs, as expressed by the family;
- complexity of the support required;
- the family's support network;
- locally identified priorities;
- other support and services currently available;
- the family's ability to deal with stress; and
- the availability of ministry funds.

However, we found no documented correlation between the individual funding levels approved and the outcomes of the assessments of the factors considered in the funding decision. In addition, we found that:

- Longer term recipients who were accepted into the program several years ago when overall funding was less constrained generally receive more funding than individuals with similar needs who were accepted recently during periods of more severe financial constraints.
- Applicants whose needs were ranked equally received significantly different amounts of support. For example, in one area office two applicants whose needs were ranked the same received annual funding of \$10,000 and \$50,000 respectively.
- In one area office the hourly rates paid to individuals temporarily relieving parents ranged from \$7 to \$13 without any explanation of the variances.

Recommendation:

In order to ensure that funding decisions are equitable, the Ministry should:

- clearly document both its assessment of the factors considered in the funding decision and the basis for the individual funding levels approved; and
- ensure that individuals with similar needs receive similar levels of funding within and between area offices as is required by the program.

Ministry Response:

In 1995/96 the Ministry introduced changes to ensure fair and consistent decision making for all applicants. Families can expect similar treatment and support across all areas. Reapplications will receive the same priority ranking as new applications. Families are expected to use other resources that are available in their communities before accessing Special Services at Home program funding.

PROGRAM DUPLICATION

In addition to the SSAH program, the Ministry operates the Handicapped Children's Benefit Program (HCB) which also provides financial assistance to families with disabled children. Services which are funded under both programs include:

- parent relief;
- extraordinary child care, day care and baby-sitting services;
- child care expenses for the family's other children while taking a handicapped child to a medical appointment; and
- camp fees.

However, unlike the SSAH program, the HCB program assesses a family's ability to pay for the required services before determining its eligibility for benefits. Thus the Ministry operates two programs reimbursing individuals for the same services, but one program is means tested whereas the other is not.

We noted several instances where families applied for but were denied benefits under the HCB program because their income was too high, and then they applied for and received funding for the same services under SSAH.

Recommendation:

In order to streamline program delivery and ensure the consistent treatment of all applicants, the Ministry should fund similar services under one program with consistent eligibility requirements.

Ministry Response:

The Special Services at Home program offers support to any eligible family subject to available resources. The Handicapped Children's Benefit is an entitlement program which is income tested and acts as a safety net for low income families. The two programs can be used to complement one another to support a family with a child or an adult with a disability.

ADMINISTRATION FEES

In one of the three area offices that we visited, most of the SSAH program funding is transferred to local transfer payment agencies that are then responsible for administering the program.

The agencies charge an administration fee for their services. The Ministry's Draft Procedures Manual states that an acceptable fee would range between 5% and 10% of the funding. However, in the above-noted area office, 65% of all the agencies charged more than the 10% guideline, 47% charged more than 15%, and one agency charged 28.5%.

Recommendation:

The Ministry should maximize the cost effectiveness of the program by making every attempt to limit administration fees to the 5% to 10% funding range noted in the Draft Procedures Manual.

Ministry Response:

The Ministry is taking steps to ensure that administration fees are kept to the 5% to 10% funding range as recommended.

3.05

MINISTRY OF CONSUMER AND COMMERCIAL RELATIONS

Liquor Licence Board of Ontario

The mandate of the Liquor Licence Board of Ontario (the Board) is to regulate the sale, serving and consumption of alcoholic beverages in the province, so as to promote moderation and responsibility in their use. With approximately 110 staff, the Board administers and enforces the *Liquor Licence Act* and its Regulations. Its primary functions include the collection of revenues from fees, licences and permits, and the licensing and inspection of manufacturers and establishments that sell alcoholic beverages.

The Board is an agency of the Crown reporting to the Legislature through the Minister of Consumer and Commercial Relations. The roles and responsibilities of the Board and the Minister are described in a Memorandum of Understanding.

For the 1995/96 fiscal year, the Board had expenditures of approximately \$8.5 million and revenues from fees, licences and permits totalling \$530 million. Manufacturing fees collected from breweries and wineries accounted for approximately \$472 million, or 90% of the total revenues received by the Board. Manufacturing fees are payable by breweries and wineries based on the volume and selling price of beer shipped for sale and wine sold in winery-operated stores in Ontario. As at December 31, 1995 the Board had licensed 41 wineries and 28 breweries to operate in Ontario.

OBJECTIVES AND SCOPE

The objectives of our audit were to assess the adequacy of controls over revenues and whether the Board had adequate procedures in place to:

- ensure that licensees comply with the *Liquor Licence Act* and its Regulations;
- ensure that its resources were managed with due regard for economy and efficiency; and
- measure and report on its effectiveness in regulating the sale, serving and consumption of alcohol to promote moderation and responsibility in its use.

Our audit included interviews with board staff and an examination of files and documentation. In addition, we reviewed any relevant work done by the Operational Review and Audit Branch of the Ministry of Consumer and Commercial Relations.

AUDIT OBSERVATIONS

On an overall basis, controls over the collection, recording and depositing of revenues received at the Board were satisfactory. Nevertheless, the Board needs to improve its monitoring of the audits of manufacturing fees to ensure that the correct amounts are being submitted by breweries and wineries. The Board has undertaken to act on our recommendation to strengthen its audit monitoring procedures.

The Board's procedures for ensuring that licensees comply with the *Liquor Licence Act* and its Regulations were generally satisfactory, although the Board needs to apply more strictly the fee regulation and not waive manufacturing fees otherwise payable by small breweries. The Board has taken action on our recommendation to deal more effectively with breweries which fail to remit manufacturing fees on time.

Procedures were in place to ensure that the Board's resources, including equipment and services, were acquired and managed with due regard for economy and efficiency.

Regarding effectiveness, other organizations are also involved in promoting moderation and responsibility in alcohol consumption. For example, the Ministry of the Attorney General emphasizes educating the public against drinking and driving. Also, the Alcoholism and Drug Addiction Research Foundation provides treatment for excessive alcohol consumption as well as conducting research on the problem.

We reviewed the information reported by the Board and took into consideration the involvement of these other organizations. We concluded that the Board had adequate procedures in place to measure and report on its effectiveness both in regulating the sale, serving and consumption of alcohol, and in contributing to the promotion of moderation and responsibility in alcohol consumption.

Colleges of Applied Arts and Technology

There are 25 publicly funded colleges of applied arts and technology in Ontario which provide programs to some 300 communities through 90 campuses located in 60 cities and towns throughout the province.

Colleges offer a wide range of postsecondary programs leading to certificates or diplomas for students who have obtained secondary school diplomas or equivalents. Colleges provide employment-focused education and skills training in the areas of applied arts, business, health, science and technology. As of November 1995, there were approximately 170,500 full-time equivalent students enrolled in postsecondary college programs.

Colleges also provide continuing education and vocational training, mostly on a part-time basis. These programs are normally purchased directly from a college by the federal government, the Ontario Training and Adjustment Board, individuals or employers.

For the 1995/96 fiscal year, college operating expenditures totalled approximately \$1.7 billion. Colleges received about \$809 million (48% of revenues) from the Ministry in operating grants. In addition, the Ministry provided approximately \$52 million in capital assistance. Other funding included tuition (14%), ancillary revenues (14%), federal and provincial funding for non-postsecondary programs (20%), and special projects (4%).

Under the *Ministry of Colleges and Universities Act*, the Minister of Education and Training has ultimate responsibility for the establishment, maintenance, conduct and governance of colleges. The Ministry's responsibilities also include approving new programs, monitoring the financial and operational performance of the colleges, and setting tuition fees.

For each college, the Act provides for the establishment of a board of governors, which is a corporation with powers and duties under the *Corporations Act*, to govern its activities. Governors are volunteers drawn primarily from the local community as well as from college employees and students.

The Act established the Ontario Council of Regents for Colleges of Applied Arts and Technology as a provincial agency accountable to the Minister. The Council of Regents' primary roles are to: make appointments to each college's board of governors; act as the bargaining agent for colleges; recommend to the Minister the terms and conditions of employment for most college employees; and advise the Minister on long-term policy issues affecting colleges.

OBJECTIVE AND SCOPE

Our audit objective was to assess whether the Ministry had established an accountability framework for Ontario's colleges that included satisfactory systems and procedures to:

- measure and report on effectiveness in achieving legislated and stated goals and objectives for the colleges;
- ensure that colleges deliver quality postsecondary programs economically, efficiently and in compliance with the *Ministry of Colleges and Universities Act*; and,
- monitor the financial condition of colleges and control payments made to colleges under the Act.

3.07

Our audit examined activities at the Ministry. We also held extensive interviews with and reviewed documents from seven Ontario colleges, the Council of Regents, the College Standards and Accreditation Council, and the Association of Colleges of Applied Arts and Technology of Ontario (ACAATO), which provides advocacy, research, planning and human resource development assistance to colleges. As well we researched accountability frameworks for colleges in other jurisdictions in Canada, the United States and abroad.

The Ministry's Internal Audit Team had not done any recent work relating to colleges but helped us to examine controls over payments to colleges.

OVERALL AUDIT OBSERVATIONS

Most aspects of the Ministry's accountability framework for colleges were either not functioning as required by legislation and policy or were in need of improvement. In addition, the Ministry had not established clear, measurable goals for colleges, an essential condition of accountability between grant-providing and grant-receiving organizations.

Over the last several years, the Ministry's enrolment-driven funding policies have been effective in achieving increased college enrolment and access while reducing the grant per student. In the absence of clear, measurable goals, these funding policies have also caused colleges to compete among themselves and to operate more in isolation than cooperatively. Stronger leadership is needed to ensure that colleges meet community needs while also working together as a system to meet provincial goals as economically and efficiently as possible.

There has been little or no meaningful measurement or reporting by the Ministry or by individual colleges on the economy, efficiency or quality and outcomes of program and service delivery. There is also no assurance that the various systems and procedures established by each college to ensure program quality, including those required by legislation, were effective. Independent reviews of college postsecondary program quality will not commence until well after the year 2000 once program outcomes and standards have been uniformly established.

A number of jurisdictions in Canada, the United States and abroad are significantly more advanced in legislating accountability requirements for colleges, defining government priorities, reporting on results, introducing outcome-based funding and in ensuring that their univer-

sities and colleges work together to provide more and better educational opportunities for their students as economically and efficiently as possible.

The Ministry released a discussion paper in July 1996 to promote consultation on future goals for Ontario's colleges and universities. The issues to be addressed include student and provincial shares of postsecondary funding, accessibility, program rationalization and cooperation between the college and university sectors. A four- to six-month consultation process is anticipated.

In addition, in January 1996, ACAATO issued a discussion paper advocating a new accountability framework for the college system. The paper supports the use of performance indicators to better demonstrate accountability.

Overall Ministry Response:

The Ministry of Education and Training welcomes the review and findings of the Provincial Auditor. The recommendations are timely. In Ontario two major initiatives of government signal the development of a new relationship with our education partners: the work of the Government Task Force on Agencies, Boards and Commissions ("Wood Task Force") and the work of the Red Tape Review Commission. Recommendations of the Wood Task Force already have resulted in a major change in the college accountability framework, with the disbanding of the College Standards and Accreditation Council (CSAC) Board as an independent agency and the planned integration of the program standards development and accreditation function into the Ministry.

The work of the Red Tape Review Commission has resulted in a commitment on the part of the Ministry to reducing the regulatory burden imposed by government on businesses and institutions, including the colleges of applied arts and technology. It is incumbent upon the Ministry to work with its postsecondary education partners to develop accountability frameworks that enhance accountability to stakeholders and the public while reducing unwarranted interference and regulation.

The development of a new accountability framework will be undertaken within the context of the public consultation on the future of Ontario's postsecondary system. The consultation, which began in July 1996, will help in the development of goals for the postsecondary system that are in keeping with the current fiscal climate of reduced public expenditures and deficit reduction. Five objectives have been specified: quality, accessibility, differentiation, accountability and responsiveness.

Besides undertaking this major consultation, the Ministry is taking steps to ensure that it is well positioned to provide the leadership that is needed in the challenging times that lie ahead. The recently announced reorganization of the Ministry to include a Postsecondary Education Division will enhance the Ministry's leadership role in relation to the development and fulfilment of strategic directions for Ontario's colleges and universities. The Ministry's Business Plan reinforces our commitment to improved accountability, performance measurement and strategic leadership.

3.07

DETAILED AUDIT OBSERVATIONS MINISTRY GOALS AND FUNDING POLICIES

Changes to Ontario's colleges are being made in the absence of clearly stated goals. Without measurable goals, neither the Ministry nor the colleges can be held sufficiently accountable for measuring and reporting on college performance to the Legislature and to the public. College representatives we interviewed expressed concern that the results of college postsecondary programs in terms of quality, efficiency and graduate employment success have been poorly communicated to the Ontario public, both by them and by the Ministry.

SETTING DIRECTION

In October 1988 the then-Minister of Colleges and Universities asked the Council of Regents to develop a vision of the college system in the year 2000. Its 1990 report, *Vision 2000: Quality and Opportunity, A Review of the Mandate of Ontario Colleges*, contained 40 recommendations for renewal of Ontario's colleges. These recommendations formed the basis for the first major reforms to the colleges since their establishment in the late 1960s.

The Council of Regents made several important recommendations on ways to: improve and monitor the quality of college programs; evaluate and recognize a college applicant's knowledge and skills and reduce the time and courses needed to graduate; broaden graduates' knowledge and skills by introducing a general education component (the arts, history, politics, the sciences and ethics) to college programs; and, improve cooperation and coordination among school boards, colleges and universities. Ministry initiatives to address these improvements were in various stages of implementation at the time of our audit.

The Council also identified a need to review the mandate for colleges and set goals and strategic directions for the college system. This need has not been sufficiently addressed to date.

Several other jurisdictions in Canada, the United States and abroad have done more to define goals for their colleges and to develop ways to measure and report progress in achieving their goals.

COORDINATING RESOURCES AND SERVICE DELIVERY

College representatives we interviewed acknowledged that opportunities exist to make the college system more efficient and effective and that greater direction and coordination from the Ministry would be needed to expedite significant change. These opportunities include:

- facilitating ways to increase sharing and cooperation among colleges for programming, purchasing, and human and physical resources;
- encouraging more colleges to specialize in particular program areas and restructure programs and campuses while maintaining community access through increased use of long-distance education technology, as some other provinces have done; and
- expediting the establishment of strategies and target dates for improving credit transfers between colleges and universities.

FUNDING POLICIES

A key instrument of policy for the college system has been the funding allocation formula, which is enrolment-based. Over the last several years, ministry funding policies and reductions have been successful in achieving enrolment growth and increased access while reducing operating grants per student, as shown in the following chart.

	Operating Grant \$ Millions)	Full-Time Equivalent (FTE) Enrolment	Grant per FTE Student (Actual \$)
1991/92	826.9	149,200	5,542
1992/93	868.4	158,300	5,486
1993/94	808.2	161,600	5,002
1994/95	807.9	166,300	4,858
1995/96	809.2	170,500	4,746
% change over 5 years	2% decrease	14 % increase	14% decrease

Because the total operating funds available to colleges are limited regardless of the total enrolment, each college has been increasing its enrolment to maintain or increase its share of available operating grants relative to other colleges. A negative consequence of enrolment competition has been that colleges have not acted in a cohesive manner or as a system. For example, for some programs with high student demand there has been enrolment growth and an increase in the number of colleges offering the programs despite declining employment prospects for program graduates.

The *Vision 2000* report recommended that the Ministry review its funding to colleges in order to provide a mechanism which explicitly considers access and quality, reduces counterproductive enrolment competition among colleges, provides greater funding stability and predictability, and promotes efficiency and strengthens accountability in the use of public resources. While changes have since been introduced to improve access and funding stability, other aspects have not been adequately addressed.

Recent funding reductions have forced colleges to reduce costs and programs. However, funding policies have not encouraged colleges to coordinate programs, to share resources, services and administrative systems or to develop new programs in areas with emerging employment prospects.

College personnel we interviewed expressed the following additional concerns about funding.

- The Ministry does not recognize for funding purposes the higher costs associated with delivering popular forms of learning such as cooperative education.
- Funding is not influenced by performance, such as improvements in program quality, graduate success and achievement of goals.

We noted that some other jurisdictions allocate a portion of their funding to colleges based on the achievement of goals and reward colleges that demonstrate high standards for program quality.

3.07

Recommendation:

To improve accountability for results by colleges, the Ministry should:

- establish clear, measurable goals for the college system in Ontario;
- develop the systems necessary to reliably track and report performance in achieving the goals;
- report publicly on its performance in achieving its planned goals and on the performance of the college sector;
- provide leadership to facilitate effective cooperation among colleges; and
- establish funding policies that are consistent with and contribute to the achievement of stated goals.

Ministry Response:

As the Ministry's recently published Business Plan indicates, improved accountability will be a guiding principle for ministry activities in relation to the postsecondary system. The Ministry is committed to integrating business planning and performance measurement into its accountability to the legislature.

The Business Plan defines the Ministry's mission as providing "policy leadership to Ontario's partners in education and training, in developing and sustaining a system that realizes excellence in student achievement, is accountable to the people it serves and spends taxpayers' dollars wisely."

The Business Plan specifies that the Ministry will strengthen its leadership role in providing strategic direction for reform of the province's education and training sectors. The newly formed Postsecondary Education Division will facilitate such leadership within the college system.

The public consultation that the Ministry will undertake will assist in the development of a new policy framework for the postsecondary system. The framework will guide the important decisions necessary to ensure that Ontario has a sustainable postsecondary system that provides high-quality, accountable and affordable education for students. As indicated in the Business Plan, reforms of the postsecondary accountability framework will be determined following the consultation.

The Ministry will be developing performance indicators to assess the achievement of its goals. Two measures proposed in the Business Plan for college and university systems are participation rates and graduation rates. Cost-effective methods of implementing systems needed to track performance will be explored.

College funding policies will be addressed in the context of the postsecondary consultation. Mechanisms to encourage cooperation, program rationalization, and collaborative ventures among colleges will be examined. In recent years the Ministry has provided Special Purpose Grants to promote cooperation and sharing, often eliminating Special Purpose Grants that are particular to individual colleges and replacing them with grants that are allocated to cooperative ventures among several colleges. The Ministry has also funded the Advanced Training Consortium to promote cooperation among colleges and universities.

COLLEGE GOVERNANCE

The *Ministry of Colleges and Universities Act* does not clearly stipulate the responsibilities of college boards of governors. While the *Corporations Act* defines broad powers and duties that apply to governors, these are not specific to educational institutions. In the absence of legislated requirements, ministry guidelines establish a board's administrative and institutional leadership responsibilities. In summary, these detailed guidelines encourage boards to:

- establish the college's purpose and direction;
- ensure that the college is effectively and efficiently managed;
- establish policies having college-wide application; and
- promote effective communication with the college's community.

Legislated requirements in some other provinces are more demanding in defining mandates for college boards of governors and more specifically defining their powers, roles, responsibilities and rules of conduct. For example, boards of governors in some provinces have a legislated responsibility to evaluate programs on a regular basis, to evaluate the performance of program instructors, and to report on the academic performance of graduates and graduate placements.

Many colleges we visited had recently begun or completed a review of their board's effectiveness. Improvements that had been implemented or planned included a greater focus on strategic planning and information needs for determining results and more comprehensive orientation programs for new board members. More rigorous budget review processes had also been introduced to enable boards to better cope with funding cuts.

However, boards' abilities to ensure that their colleges are being efficiently and effectively managed were limited due to the lack of comprehensive performance measurement and reporting systems. Most boards received only routine financial information, enrolment data and the results of periodic graduate placement status surveys. A few had begun to set targets for measuring progress in achieving their strategic priorities and for assessing departmental performance.

Following its review of college governance processes in 1994, the Council of Regents proposed and the then-Minister approved refinements to the process developed in conjunction with the Ministry in 1988 for nominating, selecting and appointing board members who are representative of the communities they serve. We noted a strong commitment by the Council of Regents and board chairs we interviewed to ensure that board members were skilled, experienced, representative, dedicated and connected to the communities they serve.

An effective accountability relationship between a college's board of governors and its president is crucial for effective college management. Under a Regulation to the Act, the process used by boards for the appointment, review and removal of a college president is subject to approval by the Ministry. While the Ministry stipulates a comprehensive process for hiring college presidents, the frequency and quality of presidential performance reviews by boards of governors varied considerably at the colleges we visited. In general, such reviews were not done annually and the processes had not been approved by the Ministry.

Recommendation:

To promote effective college governance, the Ministry, in conjunction with the Council of Regents and the Association of Colleges of Applied Arts and Technology of Ontario where appropriate, should:

- **pursue a more comprehensive legislative mandate for college boards of governors including specifications for conduct, powers, roles and responsibilities;**
- **provide guidance to college boards of governors regarding the performance information necessary to effectively discharge their oversight responsibilities including procedures for evaluating college presidents; and**
- **enforce the existing legislated requirement for ministry approval of the process used by a board of governors to review its president's performance.**

Ministry Response:

The Ministry is committed to ensuring effective governance of the college system. The new accountability framework for the college system that emerges from the upcoming consultation on the postsecondary system will help in the delineation of performance information necessary for governing boards to effectively discharge their oversight responsibilities.

With respect to the specific observations about the evaluation of college presidents, a working group consisting of individuals representing the Council of Regents, college presidents (nominated by the Council of Presidents), college governors (nominated by the Council of Governors), and the Ministry, are working on developing guidelines to fulfil the regulatory requirements with respect to the processes used to appoint, review and remove college presidents. The working group will formulate recommendations to the Minister on these processes by the end of the summer of 1996.

OTHER DETAILED AUDIT OBSERVATIONS

We have provided the Ministry with several other detailed audit observations and recommendations dealing with the various processes in place to ensure the relevance and quality of college postsecondary programs and to measure and report on colleges' performances. The Ministry's responses to our recommended actions were generally positive. Below is a summary of the key processes, observations and recommendations for action, together with the Ministry's summary response.

PROGRAM RELEVANCE AND QUALITY

- A Regulation to the *Ministry of Colleges and Universities Act* requires that programs of instruction be approved by the Ministry. Ministry policy requires colleges to seek approval for new programs or for significant changes to existing programs to ensure that all programs: have a demonstrated need; are consistent with college and ministry directions; do not threaten other programs; are funded and described consistently; and include curriculum appropriate to the needs of all stakeholders.

While ministry reviews were sufficient to ensure program quality, consistent funding and compliance with proposal requirements, program approvals need to be made within a framework of clearer ministry goals and policies aimed at balancing student and labour market demand, including such matters as enrolment quotas and program rationalization. The Ministry also needs to establish procedures to ensure that programs are delivered as approved.

- Since 1993 an independent College Standards and Accreditation Council (CSAC) has worked to set standards for college programs and to develop a process for the ongoing accreditation of programs. Based on our review of its process, resources and plans, it would have been many years before there was an independent, objective process in place to ensure that college programs consistently met established standards. With the integration of CSAC's functions into the Ministry, the Ministry needs to expedite the implementation of this process.
- A Regulation to the Act requires colleges to establish program advisory committees composed of community volunteers with relevant employment experience and expertise to participate in the design and ongoing review of each program. The contribution of these committees varied significantly, not only across the colleges we visited, but even within colleges. The Ministry needs to ensure that college boards assess and demonstrate the contribution their advisory committees make to enhance the relevance and quality of college programs.

- A ministry policy requires that college boards of governors establish procedures to regularly review all college programs to ensure that they continue to meet the postsecondary and adult education needs of the college area in the best possible manner within available resources. We found that the frequency and rigour of efforts to review programs varied significantly among colleges visited. The Ministry needs to establish procedures to ensure that program relevance and quality is periodically and reliably assessed.
- There is an expectation that colleges evaluate the performances of their instructors. However, most colleges we visited had not established such a process. Also, unlike some other provinces, the establishment of and adherence to instructor qualifications and standards is left to each college. The Ministry needs to ensure that colleges evaluate instructors appropriately and that qualification standards for instructors are established.

3.07

PERFORMANCE MEASUREMENT AND REPORTING

There are several legislated or regulatory requirements for annual reporting to the Ministry imposed on colleges including their board-approved budgets, audited financial statements, detailed financial information, graduate placement statistics and annual reports. In addition, a Regulation to the Act requires that colleges conduct operational reviews at least once every three years and report the results to the Minister.

Our assessment of each of these reporting requirements determined that:

- College annual reports were not considered useful by college governors and were not prepared on a timely basis. The Ministry used them primarily to identify system-wide issues requiring action. The Ministry needs to improve the usefulness of the colleges' annual reports by prescribing results-oriented performance reporting, by ensuring timely submission of the reports and by providing constructive feedback to the colleges.
- Operational reviews began in 1987 and were largely discontinued after one cycle of reviews had been completed. Colleges viewed the intent of the reviews as important but generally believed that they were redundant since funding reductions have forced all colleges to rigorously review their administrative costs, programs and services. The Ministry needs to establish an independent, objective and effective process for assessing a college's delivery of quality programs in relation to cost, determining compliance with important requirements and identifying best practices.
- Historically, most colleges have been able to maintain small operating reserves to help defray unexpected costs. However, recent funding cuts have significantly reduced or eliminated these reserves. About half of all colleges incurred an operating deficit in 1994/95. With funding pressures likely to continue, more formal ministry monitoring policies and procedures for each college's financial condition will be needed.
- Colleges' audited financial statements were not prepared on the same basis or in the same format as approved budgets with the result that board members could not easily compare actual results to planned results. Most stated that they do not use the audited financial statements for decision-making purposes. Also, most colleges had not disclosed or recorded a liability totalling about \$100 million for vested sick leave benefits for college employees although they were liable for these payments according to their collective agreements. The Ministry needs to improve the consistency and usefulness of college financial reporting in line with recent developments in public sector reporting practices.

Ministry Summary Response:

The Ministry acknowledges the validity of the Provincial Auditor's assessment of existing accountability mechanisms. These observations will be helpful to the Ministry and colleges as new accountability mechanisms are developed. It will be important to delineate the respective roles and responsibilities of the Ministry, college governing boards and college management, such that issues which fall within the jurisdiction of the boards of governors—for example, faculty evaluation and credentials—are addressed by the boards without unnecessary interference by the Ministry. New or revised accountability mechanisms—including those related to the development and delivery of programs of instruction—will be designed, wherever possible, to find an appropriate balance between accountability based on responsiveness to market forces and accountability based on approval mechanisms on the part of the Ministry. Reporting requirements and performance information will be developed to ensure maximum value and use to the colleges as well as to government, and to ensure that colleges are seen to be accountable to the public they serve.

CONTROLS OVER GRANT PAYMENTS

Overall we concluded that the Ministry had satisfactory systems and procedures to ensure that grants paid to colleges were in accordance with ministry funding policies. We made several suggestions for system improvements in a letter to management.

MINISTRY OF EDUCATION AND TRAINING

Ontario Training and Adjustment Board

3.08

The Ontario Training and Adjustment Board (OTAB) was created by the *Ontario Training and Adjustment Board Act, 1993* on September 1, 1993 to coordinate and streamline Ontario's training and adjustment programs and make them more accessible to all Ontarians. Prior to OTAB's establishment, approximately 25 such programs were administered by five ministries. OTAB was subject to broad policy direction from the Ministry of Education and Training.

Expenditures for OTAB in the 1995/96 fiscal year were \$441.8 million as summarized below.

Program	Total Expenditures 1995/96 (\$Millions)	Program Descriptions
Futures and Youth Employment Counselling Centres (YECCs)	116.8	Futures assists unemployed and out-of-school youth between 16 and 24 years of age in making a successful transition into work or further education/training YECCs provide counselling, assessment and referral services to Futures/other programs
Apprenticeship	76.4	Workers learn skills mostly through on-the-job training 67 regulated trades and approximately 462,000 certified skilled workers Province pays for administration of the system and shares the cost of in-school training with federal government
Ontario Basic Skills (OBS) and other literacy programs	62.0	Programs promote basic literacy and numeracy education for adults up to a level equivalent to secondary school completion and increase employability of workers/persons receiving social assistance
Total	255.2	
Other Programs and Corporate Functions	186.6	
TOTAL	441.8	

Over 90% or \$400 million of these expenditures were in the form of grants to community colleges, employers and community-based training agencies which form the broad network of agents responsible for delivering most programs and services.

Subsequent to the completion of our audit the government announced the wind-up of the OTAB as of June 30, 1996 and the transfer of responsibility for management of the programs and policy work to the Ministry of Education and Training. As the major programs we examined will continue in some form, our recommendations have been directed to the Ministry for implementation.

OBJECTIVES AND SCOPE

The objectives of our audit were to assess whether OTAB had adequate systems and procedures:

- to measure and report on the extent to which key activities and programs meet legislated, strategic and program objectives; and
- to deliver training programs and services designed to meet labour market and participant needs economically, efficiently and in compliance with requirements.

We examined the systems and procedures involved in delivering training programs by focusing primarily on the following major programs: Futures, Apprenticeship, and Ontario Basic Skills and Literacy. These programs accounted for about 60% of OTAB's expenditures. Any observations and recommendations pertaining to other smaller programs were discussed with the managers of those programs.

Our audit was conducted at OTAB's head office and five field offices. In addition, we visited several delivery agents including colleges, Youth Employment Counselling Centres (YECCs) and school boards to examine files and interview staff.

The Ministry's internal auditors provided internal audit services to OTAB. We found that their most recent audit work was sufficiently comprehensive to be relied on in reducing the nature and extent of our work. Their work on the Futures Program was particularly helpful in this regard.

OVERALL AUDIT OBSERVATIONS

Since its establishment in 1993, OTAB had been developing systems and procedures to ensure that its many training programs and services are delivered economically, efficiently and effectively in accordance with the legislated mandate. However, most of these needed systems and procedures had not yet been implemented. Our most significant observations were that the Ministry needed to:

- take action to identify and eliminate areas of potential duplication of programs, services and administration between the province and the federal government;
- complete arrangements to ensure that the Ministry and local boards, once established, have access to timely, reliable labour market information that can be used to make effective program and resource allocation decisions; and

-
- revise contracts and funding arrangements with its many delivery agents. Savings of as much as \$17 million per year might be achieved if more results-based approaches to funding delivery agents are introduced.

OTAB had completed a review of its programs and had recommended improvements to the Minister of Education and Training. Several of the recommendations, if implemented, will address issues raised in this report. For example, OTAB suggested ways to rationalize programs, to increase the effectiveness of apprenticeship training, and to develop and promote best practices in the delivery of training programs and services.

3.08

DETAILED AUDIT OBSERVATIONS MEASURING AND REPORTING PERFORMANCE

OTAB's accountability requirements were defined both in legislation and in its Memorandum of Understanding with the Minister of Education and Training. OTAB was responsible for: achieving 18 legislated objectives; complying with several policy, administrative and reporting requirements; and planning and coordinating the delivery of a variety of training and adjustment programs in conjunction with its labour market partners. To adequately demonstrate its progress in fulfilling the many responsibilities assigned to it and to comply with the accountability requirements established for it, the Board had begun to develop a performance measurement and reporting system on two levels — strategic directions and program outcomes.

The OTAB board of directors, through its Strategic Planning Committee, had condensed its 18 legislated responsibilities into eight strategic directions or areas of responsibility: Partnership, Effective Programs, Client Services, Investment in Prosperity, Life Long Learning, Improving Workers' and Potential Workers' Lives, Access and Equity, and Communications. In addition, the Committee had begun to develop performance indicators that would help measure success in meeting legislated and strategic objectives.

While the framework is an important first step there is still much work to be done by the Ministry before meaningful results measurement and reporting can begin, as for example:

- Program objectives and measures need to be linked to specific legislative or strategic objectives.
- Baseline data on skill and service levels need to be collected in a number of areas before performance targets can be set and progress determined.
- Standards for training and service delivery still need to be established for most programs.

At present, most readily available program information relates to activity levels rather than results or outcomes. Recognizing this, the Board's program review councils were asked to develop performance indicators as part of the review process. While some progress was made, the Board's review process was cut short at the request of the Minister so that program review results could be reported sooner. OTAB's work on performance indicators was not completed.

Recommendation:

In order to ensure adequate accountability for results, the Ministry should establish standards and indicators for measuring program outcomes and the achievement of strategic and legislated objectives.

Ministry Response:

There are standards and indicators in place for some programs. As part of the refocused training system some programs have been terminated, and others will be reformed to create a more streamlined system with outcome-based accountability measures and consistent standards in four areas: service standards, program standards, evaluation standards and administrative standards.

COORDINATION OF PROGRAMS AND SERVICES

Ontario's training and adjustment system is the largest and most complex in Canada. According to a 1993 study, the federal and provincial governments each funded about half of the over \$1.7 billion spent on training and adjustment programs in Ontario in the 1992/93 fiscal year. More current estimates indicate that spending still exceeds \$1 billion. The two governments fund about 1,700 agents to deliver these programs and services. About 120 of these agents receive funds from both governments.

There are also related programs and services delivered by other provincial ministries and by municipalities. Effective coordination of such a complex system is therefore critical for ensuring the efficient and effective use of funds.

Under the Canada Ontario Labour Force Development Agreement and subsequent letters of agreement, a Canada Ontario Labour Market Management Committee was established in 1991 to facilitate better coordination of programs and services provided by the two levels of government. OTAB, the Ministry of Education and Training, and Human Resources Development Canada each have representatives on this committee.

While attempts have been made by both governments to identify duplications in programs and services, the results have been inconclusive because of difficulties in gathering sufficient information. For example, the extent to which the same clients obtain similar services from each government's delivery network is not known and cannot easily be determined. However, since both governments fund programs that serve clients with similar needs, there is significant potential for duplication of services, funding and administration.

As required by OTAB's Act, a key strategy for coordinating the planning and delivery of programs and services at the local level is through the creation of 25 local training and adjustment boards composed of representatives of both governments and other stakeholders. While it was intended to have local boards in place by March 1995, no boards were operational as of January 1996. Action plans and timetables to improve local coordination and access cannot be fully developed until these boards are in place.

Recommendation:

In order to achieve better coordination of programs and services, the Ministry should:

- identify and eliminate areas of potential duplication in programs, services and administration between the province and the federal government; and
- request local boards, once established, to develop as quickly as possible the timetables and action plans needed to coordinate and streamline local training and adjustment programs and services.

Ministry Response:

Both the federal and provincial governments have documented and jointly acknowledged the need for reform in the area of labour market training and adjustment. Part of the new direction taken by the Ministry in streamlining the training system to reduce duplication and overlap was to focus Ontario's training expenditures on those clients not eligible for federal training programs (Unemployment Insurance/Employment Insurance). Full implementation of the new system of training programs and services in Ontario is a process that will take time, given the complexity of the system, including the roles and responsibilities of the federal and provincial governments. It is anticipated that substantial progress will be made by the end of the 1996/97 fiscal year.

Once established, local boards will be required to submit an annual budget accompanied by a workplan and a planned set of deliverables. Local boards will also be required to submit an annual report with an interim report every six months.

LABOUR MARKET INFORMATION BASE

A key legislated objective for OTAB was to develop a labour market information base. Such information is critical to ensure that programs and services are planned and delivered to meet labour market needs in an efficient and effective manner. The information can include statistical data on labour market trends, forecasts of occupational supply and demand, and detailed job placement information for job seekers and employers.

To avoid duplication of effort OTAB had entered into a number of arrangements with provincial ministries, such as Labour, Economic Development and Trade, and Finance, to share information generated by various programs. It also obtained information purchased from Statistics Canada by the province and had agreed to work with Human Resources Development Canada to develop and provide labour market information to local boards. However, it will be some time before local boards and the Ministry have available sufficient labour market information to efficiently and effectively plan and deliver training programs and services.

Recommendation:

To facilitate effective planning and delivery of training programs and services, the Ministry and the local boards, once established, should develop detailed action plans and timetables to obtain timely, reliable labour market information as soon as possible.

Ministry Response:

The Ministry and Human Resources Development Canada (HRDC) Ontario Region are undertaking a cooperative project to identify a core data set that local boards will need to undertake environmental scans and prepare strategic annual plans. As part of this project, sources of labour market information that can be accessed by local boards for planning purposes are being identified.

FUNDING AND CONTRACTUAL ARRANGEMENTS WITH DELIVERY AGENTS

The following chart summarizes the grants paid in the 1995/96 fiscal year, the delivery agents receiving funding and the basis of that funding for the three major programs on which we focused our audit.

1995/96 Program/ Grant Payments*	(\$Millions)	Basis of Funding	Activity Levels for 1995/96
Futures	107.5	Planned participants, taking into consideration prior performance in relation to costs incurred Adjusted monthly for actual participation	29,000 planned participants
In-school Apprenticeship	53.6	Purchased seats, paying for full-time students based on planned attendance and for part-time students on actual attendance ¹	24,000 planned seat purchases
Ontario Basic Skills (OBS)	27.1	Estimated instructional hours (contact hours), taking into consideration previous year funding	12,000 planned participants
Adult Basic Literacy	10.2		21,000 planned participants
Total	198.4		
Other Programs	201.6		
TOTAL	400.0		

* Program delivery agents — primarily the community colleges for the three major programs on which the audit focused. In 1995/96 they received over \$142.3 million to deliver the three major programs. In addition, over 70 YECCs were involved in delivering Futures, and school boards were involved with Adult Basic Literacy programs.

¹ Funding for apprenticeship seats is actually calculated using an average daily per diem rate that has been established based on a formula agreed to under the Canada Ontario Labour Force Development Agreement.

Each year OTAB negotiated and approved budgets for each delivery agent and program based on an evaluation of proposals submitted by the delivery agents. These evaluations considered the planned levels of activity against OTAB's own priorities and the agency's prior levels of funding. The agencies provided OTAB with annual audited statements of expenditure for each program. Some statements also included audited activity information.

Fifty-five percent of OTAB's grants to delivery agents were paid to community colleges. In the 1995/96 fiscal year OTAB paid over \$219 million to colleges to deliver various programs. Our review of the funding approaches for the three major programs revealed that improvements are needed.

RELATING FUNDING TO LEVELS OF SERVICE AND RESULTS

Despite the existence of funding guidelines for each program which specified the nature of delivery costs that would be funded, the approved budgets resulted in funded costs per unit that varied significantly among colleges. In the 1994/95 fiscal year for example, within each program there were several colleges with funded costs per unit that were more than 10% above or below the average for all colleges. Particularly wide-ranging among the colleges was the funded cost per contact hour to deliver the Ontario Basic Skills Program. Almost half of the colleges delivering that program in 1994/95 had funded costs that were more than 10% above or below the average. Four colleges differed from the average by more than 20%.

While some variation in per unit costs was expected due to differences in activity levels, local circumstances and delivery methods, the significant cost differences noted in 1994/95 needed to be justified by proportional differences in service levels, quality and success in achieving program objectives. However, as stated earlier, OTAB did not have sufficient information to relate funded costs to these results.

An important factor that contributed to the differences in per unit funding costs for colleges and major programs was the different approaches taken by OTAB to control program delivery costs, including the level of administrative and overhead costs (such as supervisory salaries, facility costs and student services). College budgets for the Futures program were rigorously reviewed and performance against budget was tracked monthly. For In-school Apprenticeship the per diem rate per seat was negotiated and set each year based on previous rates, inflation and other considerations. For OBS, direct program costs were defined and approved, and administrative and overhead costs were approved at 20% of direct program costs.

Using a consistent definition of administrative and overhead costs, our analysis of the 1994/95 audited program costs of 19 colleges revealed that such costs averaged 33%, 31% and 27% of total program costs, for the In-school Apprenticeship, Ontario Basic Skills and the Pre-Employment Preparation portion of the Futures programs, respectively.

If, for example, all programs had been held to the 27% average that the colleges surveyed had incurred to deliver the Pre-Employment Preparation portion of Futures, funding for administrative and overhead costs would have been reduced by \$4.2 million.

FUNDING PLANNED ACTIVITY

In the 1992/93 fiscal year a planned activity basis of funding for full-time apprenticeship students was introduced for colleges, in order to provide fairly stable funding levels and to

acknowledge that colleges incur certain costs no matter whether enrolment is higher or lower than planned. Since then, full-time student activity and funding has been as follows:

Year	Planned Students (Full-Time)	Actual Students (Full-Time)	Difference	Estimated Funding for Seats Not Used
1993/94	23,000	20,400	2,600 (11%)	\$5.3 million
1994/95	21,700	18,700	3,000 (14%)	\$6.3 million

Our review of preliminary data for the 1995/96 fiscal year indicated that planned full-time activity also exceeded actual enrolment by 10%. According to OTAB staff the planned activity levels had not been met primarily because employers were unable to release employees that they had previously committed to attend classes. Colleges could not reduce costs unless whole classes were cancelled. However, the approach to funding had not sufficiently considered past performance and actual activity.

We found that one college was able to considerably reduce funding requirements in the 1994/95 fiscal year by offering more apprenticeship training on a part-time basis. This approach is seen as being more flexible and economical by local employers, apprentices and OTAB.

While this college provides a useful approach for others to consider, funding and contractual arrangements have not encouraged the use of more flexible and economical delivery methods. A key reason for the lack of flexibility has been that federal unemployment insurance support is only provided to apprentices if they are in school on a full-time basis.

The Ontario Basic Skills Program is a literacy and numeracy program delivered exclusively by community colleges. Under this program colleges have received about \$3.6 million in the last two years for contact (instructional) hours that were not provided as the following table indicates.

Year	Funded Number of Contact Hours	Actual Number of Contact Hours	Difference in Hours	Estimated Funding for Hours Not Provided
1993/94	3,145,300	2,929,200	216,100 (7%)	\$1.5 million
1994/95	2,984,100	2,687,900	296,200 (10%)	\$2.1 million

The analyses above suggest that several million dollars could be saved annually if funding methods were tied more closely to the actual level of service provided and encouraged delivery agents to seek out the most efficient and effective delivery methods.

Management informed us that colleges were generally permitted to retain their approved funds or else they were redistributed among delivery agents in order to meet specific needs or improve program delivery.

While funding for the Futures Program is also based on planned activity levels, demand has been very high for the program and delivery agents have generally provided the planned level

of service contracted for by OTAB. Monthly monitoring of expenditure and activity levels has also helped ensure approved funding levels remain appropriate.

FUNDING FOR LITERACY AND NUMERACY PROGRAMS

Literacy and numeracy programs are delivered by colleges, school boards and community groups. There are four levels of competency training in the literacy programs. School boards and community groups normally deliver levels 1 and 2 (up to Grade 8 competency), while colleges deliver all four levels (up to Grade 12 competency).

We compared the funded costs that colleges and school boards incurred in the 1994/95 fiscal year to deliver levels 1 and 2 and noted the following.

- The average funded cost per contact hour for colleges was \$8.67 versus \$3.73 for school boards.
- Colleges received funding for indirect operating costs such as student services and administrative services. School boards did not receive funding for such costs as a matter of policy.
- If all level 1 and 2 activities were funded on the same basis as school boards, the savings to OTAB would be between \$4 million and \$5 million per year.

In cases where more than one local delivery agent can provide the same service, selective tendering would be a viable option to ensure that the most economical delivery agent is obtained to provide a specified level and quality of service.

SUMMARY

In summary, our review of OTAB's major programs and the approaches used to fund their delivery agents, especially colleges, revealed a need to revise the funding methods in order to encourage delivery agents to:

- design the most economical and efficient delivery methods; and
- focus on program outcomes as well as activity levels.

Options include establishing standard fees for services rendered, introducing more competitive funding methods and providing base funding with incentives for achieving agreed upon results. We believe that adopting such funding approaches could save as much as \$17 million per year and better ensure that intended results are achieved.

OTAB's program review proposals included a move to a more outcome-based budgeting system, which, for example, could have a portion of funding contingent upon the agent meeting client employment targets.

Recommendation:

To help ensure that programs and services are delivered in a more economical, efficient and effective manner, the Ministry should revise funding and contractual arrangements with delivery agents so that funding levels are determined by:

- **the achievement of agreed-upon program outcomes where such outcomes can be reliably determined;**

- the actual level of service provided to an agreed-upon standard; and
- where appropriate, the use of a competitive tendering process to select delivery agents to obtain programs and services that achieve agreed-upon standards and outcomes at the most reasonable cost.

Ministry Response:

The program reform initiatives initiated in the spring of 1996, once implemented, will provide a more focused, simplified and cost-effective training system. The Ministry has established a process to streamline its workplace preparation training programs into one program with four main activities and to move to results-based contracts with its delivery agents.

While acknowledging that there is room for improvement in obtaining cost-efficient training, the estimates of potential savings identified in the report may not be immediately achievable given other program considerations. Full implementation of the new system will be in place in the 1997/98 fiscal year.

With respect to literacy and numeracy programs it should be noted that the instruction and content level provided by school boards is not strictly analogous to that provided by colleges. Nonetheless, offering levels 1 and 2 exclusively through school boards and community groups does have merit for consideration and we are evaluating this in the program reform process.

MONITORING DELIVERY AGENTS

Efforts to hold delivery agents accountable for meeting OTAB priorities, complying with contracts and delivering quality programs and services at reasonable cost varied by program. Monitoring generally includes: reviewing periodic statistical and financial reports; obtaining annual audited statements of expenditures, and of audited activities in some cases; and/or conducting site visits to examine files and procedures. The following chart summarizes the OTAB staffing levels and reporting requirements for the major programs.

Program*	OTAB Staffing	Reporting Requirements
Futures and Youth Employment Counselling Centres (YECCs) (about 30,000 students)	4 region managers and 10-12 consultants	Monthly activity reports Quarterly statistical reports Mid-year report on costing information Audited statement of expenditures
Apprenticeship (about 20,000 students)	Several head office systems and administrative staff, and 26 field offices with almost 200 staff, including over 100 training consultants	Assessments of employers/schools (OTAB) Exam results/certification (OTAB) Certificates of qualification issued/renewed (OTAB) Audited Analysis of Apprentice Training Course Costs (Colleges)
Ontario Basic Skills (OBS) and other literacy programs (about 60,000 students)	4 to 5 coordinators who monitor 4 regions	Quarterly financial/statistical reports Year-end report of activity/accomplishment Audited Statement of Expenditures and Activity

* Program delivery agents — primarily the community colleges for the three major programs on which the audit focused. In addition, over 70 YECCs were involved in delivering Futures, and over 300 organizations including school boards were involved with other literacy programs.

FUTURES PROGRAM

Under its contract with OTAB, the delivery agent was subject to field visits by OTAB representatives at such time and in such a manner as deemed appropriate. Field visits were generally conducted at least once every three years. Our review of this monitoring system revealed that combining consistently conducted field visits with the analysis of key statistical reports, audited expenditure data and client outcomes data from delivery agents provided a risk-based and balanced approach to monitoring.

IN-SCHOOL APPRENTICESHIP

Under the *Trades Qualification and Apprenticeship Act*, the program is administered as a partnership among an employer, a worker and the government. Apprentices are trained in specific skilled occupations by their employers according to a formal contract registered with the government.

To help ensure that colleges and employers provide quality training, the Act permits the inspection of employers and colleges. However, a number of OTAB consultants we interviewed stated that in recent years their primary reason for visiting employers was to market the program and to determine compliance with the contract. Therefore, few reports were generated assessing the training provided by employers or the colleges.

Because employers are responsible for 90% of the training that takes place, assessment of the training provided by employers is critical to the success of the program. Also, over 40% of apprentices do not fully complete their program and obtain certification.

One field office we visited was working to formalize and standardize their monitoring process, including plans to:

- document the monitoring results;

-
- increase retention rates of apprentices by identifying problems early in the process; and
 - perform risk analyses to determine the need for interventions.

We encourage all field offices to adopt this approach to monitoring to ensure more consistent and effective use of resources.

ONTARIO BASIC SKILLS AND OTHER LITERACY PROGRAMS

The coordinators' role includes assessing and evaluating the quality of the service being delivered. However, few of the reports that we reviewed contained evaluative comments, and the extent of assessment varied considerably among coordinators. In addition, their visits were not planned or prioritized based on a formal assessment of risk. The coordinators we interviewed mentioned that the lack of a well-developed, comprehensive and consistent approach to assessment is a major reason for weaknesses in the assessment process.

However, some coordinators stated that the Framework of Quality Standards developed by OTAB in late 1994 should help to provide a sense of direction and structure to reviews once it has been fully implemented. In November 1995 OTAB published a guide to further assist coordinators in assessing literacy programs.

SUMMARY

In summary, monitoring efforts were not yet sufficient across all programs to ensure that delivery agents comply with requirements and achieve consistent quality in the services provided. In addition, where delivery agents such as community colleges deliver several programs, it may be more efficient to cover all the programs in a single field visit.

Recommendation:

To efficiently and effectively monitor delivery agents for compliance with important program requirements, the Ministry should establish monitoring policies, standards and tools which require and assist staff for all programs to:

- formally identify and employ risk factors, such as high expenditures and activity levels, poor outcomes and complaints, in selecting delivery agents for on-site visits and assessments;
- consistently document the results of their assessments and the follow-up actions taken to ensure delivery agents rectify any noted deficiencies;
- summarize and track the coverage and results of monitoring visits; and
- examine opportunities to combine monitoring activities for various programs to achieve economies.

Ministry Response:

We agree that some programs did not sufficiently focus on delivery agency monitoring and review. It is our intention to address this through program reform and restructuring of the program administration and new contracting processes.

STANDARDS FOR TRAINING SERVICES

To deliver effective and efficient training programs and services, systems and procedures are required that will ensure that:

- there is effective and ongoing assessment of the needs and priorities of employers and individuals; and
- action or training plans are designed to address those needs and priorities, and there are methods to implement and evaluate the achievement of such plans.

Systems and procedures would include establishing standards or criteria for maintaining the quality of such activities as needs assessment, counselling and intervention, and outcomes assessment. Procedures are also needed to determine whether the standards and criteria are adhered to. Currently few such standards or criteria exist.

Our visits to delivery agents revealed that for most programs there was evidence of client assessments, counselling and intervention actions, and the use of formal training or action plans to address the needs identified. However, without quality and service standards there are no criteria against which to evaluate the training services provided and therefore no assurance with respect to the quality, efficiency or effectiveness of those services.

The development of a common needs assessment process was viewed by OTAB as a critical component of program restructuring. In this regard a federal/provincial committee has proposed the use of assessment tools which would be portable, allowing clients to move between federal and provincial programs and services without having to reassess their needs each time.

Futures was the only program reviewed for which most of the required client information was being captured. For other programs we found only some of the required information on file. Until a common assessment tool is implemented there will continue to be duplication of effort and inconsistent quality in client assessments.

Action or training plans are used to establish measurable goals and objectives for a client based on an assessment of each client's needs. They provide the basis for determining whether the goals and objectives have been achieved by the end of the training period.

While we concluded that the procedures to establish training plans for clients of the major programs were generally satisfactory, we found little documentation to demonstrate that the planned results had actually been achieved.

Ongoing assessment of client progress is needed to ensure that clients achieve their targets and the specific program's goals. Such assessments determine the need for further counselling and intervention and help minimize the risk of early withdrawal.

We found that ongoing counselling and assessment was being performed in the major programs. However, we also found that intervention with students who later withdrew from the Ontario Basic Skills Program was lacking in some cases.

OTAB's program review results also highlighted the need for common standards and expectations for counsellors, again to encourage more consistent quality and documentation of the services provided.

Recommendation:

To reduce duplication and increase quality and consistency in the provision of training services, the Ministry should:

- introduce a more consistent client needs assessment process together with a client information base for use across programs and delivery agents;
- require delivery agents to assess and document whether client training or development objectives have been achieved;
- develop counselling service and quality standards; and
- regularly obtain and review program results such as successful completion and withdrawal rates as one means of monitoring the adequacy of delivery agents' counselling and intervention efforts.

Ministry Response:

Some standards already exist and will be expanded and used in developing the new programs. We agree with the development of common assessment standards as a tool to be used in conjunction with the Ministry of Community and Social Services and the federal government to also accommodate client referral and reduced duplication.

APPRENTICESHIP PROGRAM ADMINISTRATION

The training of workers in a variety of skills is important in order for Ontario to maintain a competitive industrial base. An effective apprenticeship program is a key means of addressing high unemployment, particularly for youth, and continued shortages in skilled trades.

Despite clear benefits, apprenticeship training has not experienced significant growth in recent years for a variety of reasons. A fundamental problem is that apprenticeship training was last significantly revised in 1964 with the passing of the *Trades Qualification and Apprenticeship Act*. The Act established compulsory certification of trades, the indenturing of apprentices to employers, curriculum requirements for each trade and the formation of provincial advisory committees and local apprenticeship committees. While regulations are more current, no significant reforms have taken place since then despite major changes in Ontario's labour market requirements.

Recognizing the need for reforms, OTAB's recent program review resulted in a number of recommendations aimed at strengthening apprenticeship training. These include:

- having apprenticeship training driven more by industry and workers;
- increasing the financial investment by apprentices and employers, so as to increase their commitment and sense of ownership of the program;
- introducing more flexible delivery methods; and
- better coordinating the training with other training programs and deliverers.

In addition to concerns we have already raised regarding the administration of apprenticeship training, the following aspects of program administration need to be addressed as part of any reform efforts.

LICENCE REVENUE

A regulation to the *Trades Qualification and Apprenticeship Act* requires a Certificate of Qualification to be renewed every three years, along with the payment of a prescribed fee. OTAB was responsible for issuing certificates and collecting the renewal fee, which is generally \$40 per certificate. However, a number of trades are exempt by regulation from this renewal requirement. Between 45,000 and 55,000 certificates require renewal each year.

For those trades not exempt by regulation, the renewal requirement had not been adequately enforced. We estimated that about \$3 million had not been collected to December 31, 1995 based on the number of expired licences since 1990, excluding any penalties for late renewals. It was not possible to estimate how much of this amount was owing from tradespersons who are still practising.

ENTRY STANDARDS

Apprentices, once they find an employer willing to train them, receive a salary while training on the job. Apprentices spend 90% of the time on the job and 10% studying trade theory at community colleges or other training centres. The apprentice must be at least 16 years old and have completed Grade 10 to be eligible for the program.

A survey of apprenticeship employers carried out in 1991 indicated that employers were quite concerned with the lack of basic skills in applicants for apprenticeship training. The vast majority indicated that apprenticeship candidates need to be better prepared in such skills as literacy, numeracy and technical problem solving. Little action has been taken on this survey.

In 1994 the National Apprenticeship Committee of the Canadian Labour Force Development Board identified a need for the establishment of entry standards such as aptitude tests or educational qualifications for screening apprenticeship applicants.

COURSE WITHDRAWALS

As apprentices attending colleges are fully funded for their costs by OTAB (approximately \$2,500 per student), reducing the number of withdrawals is an important aspect of program effectiveness. However, we observed that withdrawals were not being recorded or analyzed.

APPRENTICESHIP INFORMATION SYSTEMS

Our limited testing of system components revealed data integrity problems. For example, the school scheduling module continued to include in class schedules some apprentices whose contracts had been cancelled. Such problems occurred because there were 15 different databases in use which were related but not linked. Field staff had to update each database individually. Users in the field also indicated problems in using the system.

Recommendation:

In order to improve apprenticeship program administration and results, the Ministry should:

- obtain from the Ministry of Labour information on tradespersons not maintaining certificates;
- consider upgrading the level of education and skills required for entry into the program;
- record and track the reasons for withdrawals and promote best practices for timely intervention by delivery agent's staff with problematic students; and
- improve the apprenticeship information system to ensure data integrity and easier access to information through greater integration of databases.

Ministry Response:

As part of the Ministry's reform of the training system, the apprenticeship system will be reformed and issues related to the qualifications of apprentices and the overhaul of the information management system will be addressed in that context. In the short term, the Ministry will work with the Ministry of Labour to improve the tracking of certificates for practising tradespersons. The Ministry will also work to improve the links between head office and the field offices on tracking licences and has already begun to address the data integrity issues on the existing information management system. In addition, we will work with our delivery agents to improve tracking of student retention.

MINISTRY OF ENVIRONMENT AND ENERGY

Environmental Sciences and Standards Division

3.09

Under the *Environmental Protection Act*, the *Ontario Water Resources Act*, the *Waste Management Act*, and a number of related acts, the Ministry of Environment and Energy is charged with a broad mandate to protect the quality of the natural environment in order to safeguard the ecosystem and human health. Within the Ministry, the Environmental Sciences and Standards Division is responsible for using its scientific and technical expertise to set standards, monitor pollution and develop programs to assist the Ministry in fulfilling its provincial mandate.

For the 1995/96 fiscal year, the Division had over 600 staff and total expenditures of \$55 million.

OBJECTIVES AND SCOPE

Our audit objectives were to assess whether the Ministry had satisfactory procedures in place to:

- measure and report on the performance of the Environmental Sciences and Standards Division in contributing to the effectiveness of the Ministry in protecting the environment and human health; and
- ensure that services provided by the Division were being delivered with due regard for economy and efficiency.

Our audit included a review and analysis of all relevant, available documentation and management reports pertaining to activities of the Division as well as discussions with appropriate divisional staff. We also reviewed relevant work on the Division by the Ministry's Management Audit Branch.

OVERALL AUDIT OBSERVATIONS

The Ministry had workload-based and output-based indicators for measuring and reporting on the performance of the Division's activities. However, to better meet its mandate for safeguarding the environment and human health, the Ministry needs to update its standards for air pollutants. Additionally, it needs to improve its monitoring efforts in the areas of air, water and hazardous waste materials.

The Ministry has made progress in restoring the Great Lakes and in reducing the emission levels of a number of air pollutants. However, it needs to develop a more pro-active and systematic approach to managing ground water.

With certain exceptions, services provided by the Division were generally being delivered with due regard for economy and efficiency.

DETAILED AUDIT OBSERVATIONS

MEASURING AND REPORTING ON EFFECTIVENESS

The Environmental Sciences and Standards Division helps the Ministry fulfil its mandate of protecting the environment and human health by: assessing toxicological data to set standards for pollutants in the environment and providing expert advice about the environment to other ministry staff and to the public; monitoring air, water and soil to assess and report on the sources and extent of various pollutants in Ontario as well as monitoring and tracking the movement of hazardous waste materials; and developing programs and regulations to address environmental issues which pose significant risks to the province.

The Ministry had a number of performance indicators for measuring and reporting on the Division's various activities. Such indicators were either workload-based (for example, how frequently samples were taken) or output-based (for example, how many regulations were formulated), as the examples below illustrate.

- Standard-setting activity was measured in terms of the number of standards developed and the number of site-specific, expert opinions provided in cases where standards were lacking. Standards were communicated to other ministry staff and external users through a ministry information system, the Ontario Accessible Standards Information System (OASIS) which was updated semi-annually.
- Environmental monitoring activity was measured in terms of the number of samples collected and analyzed; the extent and frequency of air, water and soil monitoring in different parts of the province; and the number of hazardous waste transfers being tracked. Monitoring results were made available to other ministry staff to be used for compliance assessments, enforcement and program development. Some of these results were also made available to the public as indexes on air quality and pollution, Drinking Water Surveillance Program reports on water treatment plants (see Chapter Four of this Report) and the *Guide to Eating Sport Fish*.
- Program development was measured in terms of the number of programs developed, emission reduction targets and benchmarks set for various pollutants, and number of regulations reviewed and recommended. Program development results were usually communicated to the public in the form of legislation, as incentive programs for pollution reduction or as agreements with industries and other levels of government. Examples include the *Canada-Ontario Agreement* for cleaning up the Great Lakes and the Countdown Acid Rain program.

However, these indicators did not provide an assessment of the contribution and impact that the Division's activities had on the protection of the environment and human health.

The Ministry indicated, and we agree, that it was difficult to isolate the contribution of the Division's activities in relation to its other activities. We noted that the Ministry recognized the need to measure and report on its effectiveness in protecting the environment and human health. To this end, the Ministry is in the process of developing performance measurement alternatives.

STANDARD SETTING

One of the Division's critical functions is to establish safe concentration levels for various pollutants in Ontario's air, water and soil. Establishment of these levels, or standards:

- provides monitoring benchmarks which allow the Ministry to assess whether the environment is being exposed to unacceptable levels of risk so that timely corrective action can be taken;
- provides an objective and scientifically defensible basis for requiring companies or industries that release chemicals into the environment at concentration levels greater than those permitted by Ontario standards to implement pollution control measures;
- allows ministry regulatory procedures to be performed in a consistent and equitable manner; and
- provides a basis for the cleaning up of contaminated sites.

According to the Ministry, there are 60,000 to 100,000 chemicals in commercial use worldwide; up to 5,000 can be detected in the environment. Of those 5,000 chemicals, 500 are known to have adverse effects and, therefore, are of concern to the Ministry.

Currently, Regulation 346 under the *Environmental Protection Act* prescribes concentration standards for 87 air pollutants. The Ministry has developed other, less formal "interim standards" for the more than 400 pollutants in Ontario's air, water and soil not mentioned in regulations. These are known by various terms such as "objectives," "criteria," "guidelines," "approval screening levels" and so on. These interim standards together with the 87 legislated standards are kept on the Ministry's OASIS database.

Although interim standards are not legally enforceable, a legal requirement to comply with them can be imposed through the provincial Certificate of Approval process. In Ontario, Certificates of Approval are required for any construction, alteration, extension or replacement of any plant, structure or equipment that may discharge a pollutant into the environment. The provincial Certificate of Approval process uses standards as screening tools to prevent industry from discharging pollutants at concentrations that would put human health and/or the environment at unacceptable levels of risk.

If standards are too lenient, they could significantly hamper the effectiveness of Certificates of Approval as a preventive control; they could also impair the effectiveness of the Ministry's monitoring and compliance activities as damage to the environment and human health could occur before levels of pollution are considered to be out of compliance.

For the purpose of this section, unless we specifically cite Regulation 346, we use the term “standard” to mean any numerical limit which the Ministry has set as a safe level for a pollutant.

UPDATING EXISTING STANDARDS

Standard setting is a dynamic process which requires continuous scientific research as new chemicals are constantly being developed by industries. In addition, standards for many contaminants may have to be changed as new data on their toxicity or carcinogenicity become available.

According to the *National Pollutant Release Inventory Report* issued by Environment Canada in the fall of 1995, of about 55 million kilograms of potentially harmful chemicals released in Ontario, 84% were released to the air, 9% to the water and 7% to the soil.

Our review of ministry information indicated that standards for pollutants in soil and drinking water were relatively current. However, many of the standards for air pollutants were developed over 20 years ago and were out of date.

In 1992, in view of the potentially significant impact of air pollutants on Ontario’s environment and from a concern that a number of the existing standards required review, the Ministry assigned a team of ministry scientists to conduct a review of standards for 289 air pollutants. The purpose of the review was to identify the standards which should be updated and to establish priority for revision. The team obtained reference values from seven agencies in other jurisdictions, which were identified by the scientists to have up-to-date, scientifically defensible approaches. When different values for the same pollutant were available from these agencies, “priority was given to those agencies whose mandate is the development and implementation of scientifically defensible standards and/or guidelines for environmental contaminants.”

The results of the review indicated that only about 63 (21%) of the 289 standards did not require revision, either because scientific data indicated they were still current (3%) or because adequate scientific information was not available to be used for revision (18%). Of the balance of 226 standards (79%), 91 were classified as “requiring substantial reduction and/or reassessment” and 135 were classified as “requiring further review.”

The purpose of the 1992 review was to prioritize Ontario’s air standards for updating. Although a number of air standards were under development at the time of our audit, we noted that none of the 226 standards had been updated—including those 91 which were identified as “requiring substantial reduction and/or reassessment.”

Recommendation:

In order to safeguard the environment and human health, the Ministry should develop and update its air quality standards on a timely basis.

Ministry Response:

The Ministry acknowledges the finding that a significant number of air standards require review. To address this need, the Ministry has developed an aggressive three-year plan for setting standards through a number of mechanisms, including adoption from other jurisdictions, federal/provincial harmonization and partnerships with interested stakeholders.

The Ministry has many competing priorities for its standard-setting resources. In recent years, emphasis was placed on developing surface water standards as part of the Ministry's Municipal Industrial Strategy for Abatement (MISA). In 1992 sediment guidelines were completed, and in 1996 comprehensive guidelines were completed for 117 pollutants in soil and ground water for use in the decommissioning of contaminated sites. At this time the Ministry's standards for surface water, soil, sediment and drinking water are current. The new three-year plan gives priority to air standards with 25 already under development and an additional 48 to be completed by 1999. Priorities are based on program requirements and the need to review current toxicological information, including information on carcinogenicity which became available after some of the existing standards were set.

ENVIRONMENTAL MONITORING

The Ministry conducts environmental monitoring to determine and report on the sources and extent of various pollutants in the environment so that timely corrective action can be taken when necessary.

Environmental monitoring is commonly subdivided into compliance monitoring and ambient monitoring. Compliance monitoring is conducted to assess compliance with legal requirements such as acts, regulations, or Certificates of Approval or to assess relatively local effects of known point-sources of pollution. Ambient monitoring is used to measure the effects of pollution across a larger geographical area and does not target a single pollution source.

Compliance monitoring tends to address short-term issues whereas ambient monitoring often focuses on the longer term, measuring changes that are often subtle, but which can, over time, be critical to the sustainability of the natural environment. The results of ambient monitoring normally have broad applications in guiding program development and measuring progress toward environmental goals.

Although the Environmental Sciences and Standards Division conducts both types of monitoring, the Division emphasizes ambient monitoring. Compliance monitoring for abatement and enforcement purposes is covered mainly by regional offices of another division of the Ministry.

AMBIENT AIR MONITORING NETWORK

To protect the public from undue exposure to certain airborne pollutants, the Ministry operates a continuous ambient air monitoring network consisting of 200 measuring instruments at 89 locations in 26 cities across the province. This network measures sulphur dioxide, nitrogen

oxides, carbon monoxide, ozone, suspended particles and total reduced sulphur compounds on a continuous basis.

Essentially, the ambient air monitoring network serves three objectives.

- It identifies long-term trends to assist the province in developing more effective programs, policies and regulations.
- It alerts the public to take timely preventive measures when concentrations of pollutants reach undesirable levels.
- It allows the Ministry to order industrial plants to close or temporarily cease operation when pollutants reach unacceptable levels.

While staff at the various regional offices of the Ministry are responsible for maintaining the instruments across the province, the monitoring branch from the Division performs periodic quality control inspections to verify the accuracy of the monitoring instruments. Our review of the latest quality control check results of over 700 tests indicated about 14% of the instruments failed to provide readings within an error range of 10%.

Management indicated that, by design, the network can tolerate a certain percentage of failure. However, our follow-up review of the Division's quality control report indicated that individual failure rates varied significantly among pollutants (from 4% to 29%) and types of instruments (from 0% to 80%). According to the report, failure rates could be even higher due to the fact that regional maintenance staff often adjusted the instruments to bring them within the acceptable limits immediately prior to the scheduled quality control visits.

If the air monitoring network is to be effective in achieving its objectives, then the accuracy of its instruments needs to be addressed. Our discussions with ministry staff indicated that the network might be improved by removing some obsolete instruments and redeploying others to cover their monitoring functions. Removing obsolete instruments which are difficult to maintain would not only save maintenance staff's time, it would also improve the accuracy of the network.

Recommendation:

The Ministry should assess the viability of removing those air monitoring instruments that are obsolete and redeploying others to improve the accuracy of the air monitoring network.

Ministry Response:

The instrumentation utilized in the Ministry's air quality network is current with what is commercially available. The Ministry performs over 700 audits annually on the network instrumentation. Over the past year, 14% of the 700 tests indicated a variance in excess of 10%, which is the range of acceptable performance for the system.

In the last ten years, the Ministry has invested approximately \$50 million in support of air monitoring programs. In addition to the network, the Ministry operates two state-of-the-art mobile Trace Atmospheric Gas Analyzer units which are used to assess air quality. In the Ministry's continuing efforts to keep instrumentation current, it has embarked on a new small particle monitoring program. New technology will supplement and eventually replace current instruments. The Ministry will continue to evaluate and update instrumentation.

Recommendation:

To improve monitoring of the reliability of the measuring instruments, the Ministry should not give advance notice of quality control visits to regional maintenance staff.

Ministry Response:

The Ministry plans to increase the environmental auditing of both Ministry and private sector air monitoring networks. As part of these plans, we will be establishing new rules for engagement of the audit group and those responsible for the air quality stations, that is, advance notification will not be given except where there is a need to ensure staff safety due to the location of stations in remote or isolated areas.

HAZARDOUS WASTE MONITORING

More than two billion kilograms of hazardous waste are generated in Ontario every year. All major generators of hazardous waste are required to register with the Ministry and to declare the type and quantity of waste they are generating or expect to generate.

All disposal facilities for hazardous waste, whether on-site or off-site, must be certified by the Ministry. On-site disposal facilities are generally limited to big companies with the resources to install such facilities. Ministry personnel consider these facilities to pose less risk to the environment than off-site facilities because they eliminate the risks associated with transporting hazardous waste. Much of this waste is in liquid form, and transporting it entails the risk of spills and seepage which can be dangerous to the environment as well as difficult and expensive to clean up. In addition, the high cost of transportation for off-site disposal and, in some cases, of storage for hazardous substances such as PCBs, increase the risk of the waste being illegally disposed of.

Because of the risks associated with off-site disposal, the Ministry tracks the movement of hazardous waste to ensure that it is handled safely. The *Environmental Protection Act* requires all carriers and receivers of hazardous waste to be certified by the Ministry. In Ontario, all

generators, carriers and receivers must inform the Ministry of the movement of such substances.

At the time of our audit in early 1996, there were approximately 32,000 generators of hazardous waste, 800 licensed carriers and 800 licensed receivers registered with the Ministry. In addition, there were 1,700 registered PCB storage sites.

Hazardous Waste Information System

The Ministry's Hazardous Waste Information System verifies that generators, carriers and receivers are properly registered or certified for the type of waste being handled and tracks shipments from source to destination.

If any generators, carriers or receivers handle waste they are not registered or certified to handle, or if the quantity shipped differs significantly from the quantity received by the designated facilities, the system produces an exception report. The exception report is forwarded to regional environmental officers for follow-up. If needed, further investigation and prosecution is carried out by the Investigation and Enforcement Branch of the Operations Division. According to the Ministry, since 1993, there have been more than 100 convictions relating to hazardous wastes.

Registered generators of hazardous waste are required to forecast the quantity and type of waste they expect to generate. Ministry staff estimated that over half of the generators registered had never reported any disposal of hazardous waste. The Ministry did not have information as to whether these generators had gone out of business, were no longer producing hazardous waste, were simply not reporting or were disposing of their waste illegally.

Since the purpose of the hazardous waste information system is to help environmental officers identify potential violators who do not properly report the disposal of hazardous waste for timely follow-up, information on registered generators not reporting any disposal of hazardous waste would enhance officers' effectiveness. This information could help regional staff identify generators who were illegally disposing of hazardous waste but not reporting.

Our discussions with Ministry staff indicated that if the information could be provided on-line to regional staff, exception reports could be forwarded to environmental officers on a more timely basis. An on-line system would also allow regional staff to identify inactive generators for follow-up.

Recommendation:

To allow for better monitoring and control of hazardous waste disposal, the Ministry should investigate ways to improve the use of the Hazardous Waste Information System. Registered generators not reporting disposals should be identified and the reasons for their not reporting should be obtained.

Ministry Response:

The Ministry of Environment and Energy's computerized Hazardous Waste Information System is widely recognized as the best in Canada and one of the best in the world. It is used to track the generation and shipment of hazardous wastes in Ontario.

The Environmental Monitoring and Reporting Branch (EMRB) will provide the regional abatement staff with a listing of generators which have not shipped subject waste over a specified time period. EMRB will work closely with Operations Division staff to ensure that all follow-up activities can proceed effectively and on a timely basis. This new initiative, together with ongoing abatement activities, will help further reduce the risk of off-site management of hazardous waste.

PROGRAM DEVELOPMENT

Environmental issues need to be identified and analyzed in terms of their risk to the environment and/or human health. Environmental monitoring enables the Ministry to determine and report on the sources and extent of various pollutants in the environment. When monitoring efforts identify pollution beyond acceptable levels, the Ministry develops programs to eliminate, reduce or prevent further pollution and to repair damage already incurred.

Developed programs can take the form of legislation, voluntary agreements, preventive measures, economic incentives and restoration activities. Programs are usually developed based on the severity of the problems in relation to costs and available technology.

Program development at the Ministry is the responsibility of the Environmental Sciences and Standards Division. It is essentially a risk management process to ensure that actions are taken to remedy existing environmental problems and to prevent further damage. Establishing benchmarks or targets is a key step in program development. Success of a program is measured by determining whether the program is effective in meeting the benchmarks.

GROUND WATER PROTECTION

Ground water occurs to a varying extent in all geologic materials; those materials that are capable of yielding sufficient water to water wells are called aquifers. About 2.8 million people in Ontario depend on ground water as their water source. In addition to domestic and industrial use, ground water in Ontario is also important for replenishing surface water; many streams, rivers, lakes and wetlands rely on natural ground water to maintain their flows and to sustain fish and other aquatic life. In some areas of the province, 60% of the stream flow comes from ground water. In summer and early fall, when surface flow diminishes, some streams may be fed entirely by ground water.

Ground water is a renewable resource that is replenished mainly by precipitation and snowmelt percolating through the soil. To maintain this resource indefinitely, an equilibrium between the natural recharge and discharge of ground water and human withdrawals must be maintained. The safe yield from an aquifer is the amount of water which can be removed on a continuous basis without harming the sustained or uninterrupted supply. Withdrawals from an aquifer in

excess of its safe yield for extended periods of time will deplete the water stored in the aquifer, lowering its water table. This could lower the yield from wells within the aquifer and reduce ground water contributions to surface waters permanently.

In Ontario, the Ministry of Environment and Energy is charged with the prime responsibility for the conservation of the ground water resources of the province and the effective control and use of these resources for the public good. Its mandate to manage ground water resources is established in the *Ontario Water Resources Act*, the *Environmental Protection Act* and the *Pesticides Act*.

There are also a number of other ministries and agencies interested in ground water protection and management as a source of individual and municipal water supply, for farming support, industrial and commercial uses and for maintaining the base flow of rivers and streams. These parties include the provincial ministries of Municipal Affairs and Housing; Natural Resources; Agriculture, Food and Rural Affairs; federal government departments such as Environment Canada and Agriculture and Agri-food Canada; and other agencies such as municipalities and conservation authorities. The Ministry works with all these partners to clarify their respective roles and responsibilities and to avoid duplication of effort in ground water management.

Protecting Ground Water Quantity

To protect ground water quantity in Ontario, the Ministry requires anyone taking more than 50,000 litres of water a day to obtain a permit to take water. It also requires well contractors to submit a record of every newly constructed well within 30 days after the completion of the well. A water well information system was developed by the Ministry to capture information from these records to help the Ministry assess the status of ground water use as well as to identify the geographic coordinates and elevations of water wells in Ontario. In addition, the Ministry develops maps of Ontario's major aquifers to identify the areas they cover and their yield potential.

Information from aquifer mapping and the water well information system is intended to provide a clear overall picture of the quantity of ground water in different parts of the province. Such information is needed to enable the Ministry to be more effective in its decisions in issuing permits to take water, in its advice to municipalities developing their official plans, and in its investigations and corrective actions regarding complaints.

Our review indicated that:

- Of the 200,000 well records submitted to the Ministry over the last 12 years, only about 30,000 had been entered into the water well information system.
- The eight aquifer maps currently available at the Ministry had all been developed before the 1980s and only covered parts of central and eastern Ontario.

Although ministry regional staff did conduct investigations of ground water quantity problems, such investigations were ad hoc measures and did not provide an overall picture for the effective management of ground water quantity.

Recommendation:

The Ministry should develop a more pro-active and systematic approach in order to better manage ground water quantity; such an approach should include the updating of the water well information system and aquifer maps to allow for better assessment of current ground water use in the province and for timely remedial action.

Ministry Response: See Ministry Response to the section below.

3.09

Protecting Ground Water Quality

Poor construction and location of wells are the most common reasons for bacterial contamination of well water. To protect the quality of ground water, the Ministry requires all well drillers to pass a qualifying examination before they are allowed to practise their trade.

In addition, Ministry regional staff investigate complaints of ground water contamination on a case-by-case basis. On average, the Ministry investigates about 2,000 complaints of such contamination every year.

However, we noted that ground water was not monitored systematically throughout the province. Much of the information about the quality of ground water came from complaints the Ministry was asked to investigate. Such complaints most often involved pollution by agricultural chemicals and waste, road salt, toxic chemicals and industrial wastes.

Although the number of complaints was relatively small, they serve as indicators of problems that have already been recognized or suspected. There could be cases in which water quality impairment remains undetected. The only major study of ground water quality we could find came from a survey of water from 1,300 Ontario farm wells which was sponsored by the federal Department of Agriculture and Agri-Food Canada in partnership with the Ontario ministries of Environment and Energy and Agriculture, Food and Rural Affairs. Carried out between October 1991 and March 1992, the survey results showed that over one third of the wells contained one or more pollutants (mostly bacteria) at concentrations above those stipulated by the provincial drinking water objectives, with 31% exceeding the maximum acceptable limits. A follow-up survey in the summer of 1992 produced a similar pattern of results. Bacteria-contaminated water normally causes mild intestinal illness characterized by diarrhea; according to the Ontario Ministry of Health, such illnesses are among the most frequently diagnosed reportable diseases in the province.

The surveys discussed above were confined to well water from farms and did not provide evidence of widespread aquifer contamination.

The following incidents of hazardous waste contamination have been reported by the media in recent years. However, dealing with such incidents is both time consuming and costly as the examples below demonstrate.

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- It was discovered in 1989 in Elmira that the ground water supply for the town had been contaminated with a toxic chemical which had leaked from a local chemical plant. As it would take about 30 years to clean up the contaminated ground water, arrangements were made to have water piped in from the Waterloo Region. To date, costs of remediation and the provision of an alternative water supply were estimated to be about \$50 million.
 - In Smithville, the remediation program for cleaning up PCB polluted ground water has taken more than 10 years and cost about \$25 million since the discovery of the pollution in 1985. Complete remediation is not currently possible because the technology necessary for cleaning up the bedrock underground has yet to be developed.
 - In December 1991 in Manotick, 74 wells serving over 200 homes and businesses were found to contain a dry cleaning solvent that had leaked from a storage tank at a dry cleaning store. According to the Ministry, there is little likelihood of cleaning up the ground water in the near future. In the meantime, an alternate water supply was established at a cost of over \$5 million.

These occurrences highlight the potential risk and cost of dealing with ground water polluted by toxic chemicals. They emphasize the importance of preventive measures such as ministry requirements for proper storage and transport of hazardous chemicals. Furthermore, before remediation can begin, such incidents require that pollution sources be identified and pollutants tracked and contained. Timely detection of such problems can limit pollution to a small area for clean-up or at least limit the area of damage if clean-up is not possible.

We noted that the Ministry used to maintain a network of observation wells to monitor the quality of ground water across the province. However, the network has been discontinued, and the Ministry has not developed an alternative approach to systematically monitoring ground water quality.

Recommendation:

The Ministry should monitor ground water quality on a systematic basis to provide assurance of its safety for the environment and human health as well as to enable the Ministry to take prompt remedial action when necessary.

Ministry Response:

The Ministry of Environment and Energy works closely with the ministries of Natural Resources, Municipal Affairs and Agriculture, Food and Rural Affairs as well as municipalities, Conservation Authorities and interest groups in the protection and management of ground water.

The Ministry has recently initiated a review of ground water management and protection in the province in conjunction with the other ministries. The objectives of this review are to develop an overall ground water management strategy based on a common set of management and protection principles and a clearer delineation of roles and responsibilities among provincial agencies, local/regional and non-governmental groups. Data management, including the well water database and linkages to other sources of information of importance to ground water management in Ontario are under review as part of the ground water management strategy.

3.09

GREAT LAKES RESTORATION

The Great Lakes are among the world's most important freshwater resources; they are also subject to intense pressure from human activities. More than 35 million people live in the Great Lakes basin and more than nine million of those live in Ontario.

The International Joint Commission has been formed to resolve environmental problems occurring around the Great Lakes between Canada and the United States. In 1985 the Commission identified 42 highly polluted areas ("areas of concern") and formally recommended a remedial action plan process to clean them up. Of the 42 areas of concern, 17 are located in Ontario.

In Canada, the federal and Ontario governments are working together to meet the obligations of cleaning up the Great Lakes through a partnership called the *Canada-Ontario Agreement*.

The current agreement sets out, clear, measurable targets to meet commitments to ensure restoration and protection of the Great Lakes basin ecosystem. Fifty-five targets are to be achieved by the year 2000.

Our review indicated that Remedial Action Plans have been established to restore about 60% of impaired beneficial uses in the 17 areas of concern by the year 2,000. To date, one of the areas has been sufficiently restored to be delisted as an area of concern.

Program development staff have been investigating alternatives to assess how continued protection and restoration of the Great Lakes could be achieved with reduced funding.

In 1986, in order to help meet Ontario's commitment to cleaning up the Great Lakes, the Ministry initiated a program called the Municipal Industrial Strategy for Abatement (MISA) to develop regulatory measures. Our review showed that regulations specifying limits for toxic substances in industrial effluent have been promulgated for nine industrial sectors.

The strategy for municipalities is under development in cooperation with municipalities. According to the Ministry, the number of sewage treatment plants which did not meet provincial guidelines for effluents was 67 in 1994 compared with 91 in 1991.

AIR POLLUTION REDUCTION

Air pollution in Ontario originates mainly from trans-boundary sources, emissions from industrial processes and the burning of fossil fuels. Our review of Ministry records indicated that programs developed by the Ministry have been effective in reducing the emission levels of a number of air pollutants as the points below illustrate.

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- Over the last 20 years, ambient levels of the six most common pollutants have all declined in spite of population growth and increased industrial activity.
 - Since the introduction of the Countdown Acid Rain program in the mid-1980s, emissions of sulphur dioxide—the major cause of acid rain in Ontario—have declined by more than 50%.
 - Since 1987, through provincial regulatory controls and industrial innovation, Ontario has reduced the use of chemicals which deplete stratospheric ozone by more than 50%. With the recent introduction of regulations banning the use of two of the most powerful ozone destroyers, halons and chlorofluorocarbons (CFCs), the Ministry estimated that virtually all the ozone depleting substances would be eliminated in Ontario in the near future.

We also noted that the Ministry had identified issues concerning airborne toxic substances, climate change gases and smog as key areas requiring continued reduction efforts and was developing programs to address those areas.

ECONOMY AND EFFICIENCY

Our review indicated that services provided by the Division were generally being delivered with due regard for economy and efficiency. All division managers had work plans which specified deliverables and time frames for achieving their performance targets. Every six months, progress reports for each work plan were reviewed to assess whether performance targets were being met.

In anticipation of a significant reduction to its operating budget in the 1996/97 fiscal year, the Division had initiated an internal review of all its activities to determine how they could be streamlined or rationalized.

Division staff also worked closely with staff from the federal government to identify overlapping responsibilities in order to harmonize activities and eliminate duplication of effort. The recent *Canada-Ontario Agreement* is a good example of the two levels of government collaborating to deal with the Great Lakes and related issues. In addition, a Canadian Council of Ministers of the Environment has been established by federal and provincial governments to have ongoing discussions in clarifying their respective roles and responsibilities regarding various environmental issues.

While dialogue with the federal government is ongoing and the internal review of divisional activities had yet to be completed at the conclusion of our audit, we noted that better economy and efficiency could be achieved in the following areas.

DATA MANAGEMENT

The Ministry has extensive research and monitoring data relating to the various environmental issues and covering many years. However, staff indicated to us that they found the information difficult to access because it was not centralized and there were insufficient conventions for storage or retrieval.

Recommendation:

To facilitate access to data for ministry staff, the Ministry should develop an integrated approach to consolidate data and provide better access.

Ministry Response:

The Environmental Sciences and Standards Division (ESSD) has begun to integrate and standardize its environmental databases beginning with the downsizing of the Legacy data contained on the mainframe computer (The Sample Information System) to a local server. User access to the data will be facilitated over the Internet. Other program databases included in the ESSD data integration plan are the Drinking Water Surveillance Program, Provincial Water Quality Network, Great Lakes, Well Water Records and Licensing, Hazardous Waste Information System, FISHBASE, Air Quality Information System, Sample Results Data Store (part of the Municipal Industrial Strategy for Abatement), ground water data, the Laboratory Information System and other research data. The ESSD integration plan is compatible with Data Share, the corporate initiative to integrate all ministry databases.

ESSD is also investigating means of facilitating staff access to environmental databases owned by universities, the International Joint Commission and other governmental agencies. For example, ministry staff currently have electronic access to the pollutant release information collected by the federal government under the National Pollutant Release Information program.

UTILIZATION OF MARINE RESOURCES

The Division maintains a marine service unit to provide vessels and staff for sampling water and sediments and for obtaining data for geographical information systems. The unit has six vessels which cost in total approximately \$1 million to acquire. It was staffed with two captains, one mechanic, one crew chief and one crew coordinator at an operating cost of approximately \$500,000 per year.

Our review of the marine service unit records for the past four years indicated that the six vessels were under-utilized. For example, in 1995 only one of the six vessels was used between May and November and then only for about 100 days.

Recommendation:

The Ministry should review the need for and utilization of the marine service unit.

Ministry Response:

The Ministry has recently completed a review of its monitoring needs and resources, and is implementing several changes to the marine services program:

- returning some of the largest and least used vessels to government assets for public sale;*
- exploring partnerships with the private sector to provide vessels for their short-term use in return for monitoring services;*
- continuing to operate one primary vessel to meet the Ministry's monitoring needs; and*
- reducing staffing levels based on program needs.*

The Ministry is also pursuing opportunities for improving the coordination of monitoring the Great Lakes with other agencies which are also involved in these activities. These agencies include the Ministry of Natural Resources, Environment Canada and the United States Environmental Protection Agency.

MINISTRY OF FINANCE

Corporations Tax

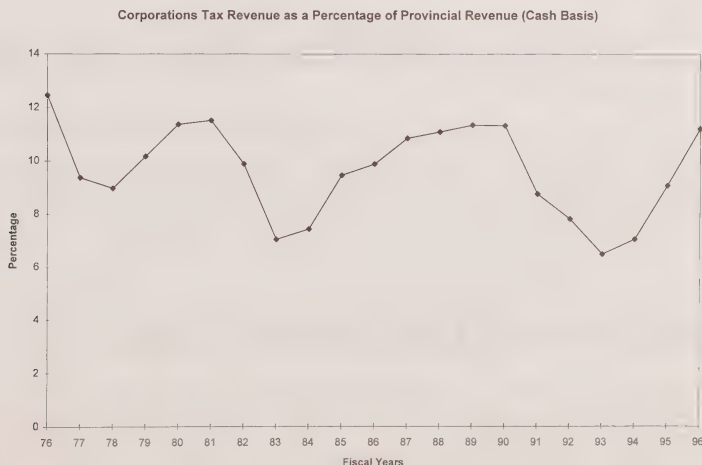
All corporations with a permanent establishment in Ontario are subject to the *Corporations Tax Act*. Corporations tax has four main components—income tax, capital tax, premium tax and corporate minimum tax.

3.10

- Income tax is payable at a rate of up to 15.5% of taxable income; active small businesses are eligible for a tax credit of up to 6% on their taxable income, reducing their effective tax rate to 9.5%.
- Capital tax is payable on a corporation's taxable paid-up capital (0.3% of taxable capital for most corporations, with small corporations paying a flat rate varying between \$0 and \$500).
- Premium tax is tax payable by insurance companies based on the total insurance premiums written in Ontario.
- Corporate minimum tax commenced in 1994 and generally applies only to larger corporations and corporate groups.

For the 1995/96 fiscal year, the province collected corporations tax totalling \$5.4 billion (net of refunds totalling \$509 million) comprising \$3.9 billion in income tax, \$949 million in capital tax, \$558 million in premium tax and \$22 million relating to the corporate minimum tax.

As the following graph indicates, corporations tax as a percentage of total provincial revenues fluctuates significantly from year to year. These fluctuations reflect the relative performance of Ontario's economy and its effect on corporate profits. Corporations tax is more affected by the economy than most other provincial taxes and revenues.



Source: Public Accounts of Ontario

The Corporations Tax Branch of the Ministry of Finance has primary responsibility for the administration and enforcement of the *Corporations Tax Act*. As of July 1995 the Branch had an active taxroll of 621,000 corporations consisting of 218,000 that were liable for tax and 403,000 that had no current tax liability and as such were required only to submit a federal corporations tax return to Revenue Canada.

The Branch's 330 staff work primarily in two areas, operations and field audit. Operations staff are located in Oshawa, and field audit staff are located in North York, Oshawa and London. At the time of our audit, there were 160 staff in the operations area involved in processing and screening returns; processing refunds, taxpayer requests and federal assessments and reassessments for Ontario income and capital tax implications; conducting desk audits of returns; and maintaining the taxation database. The Branch has approximately 140 audit staff responsible for conducting field audits. For the 1995/96 fiscal year, the Branch's expenditures were \$22.5 million, of which \$17.3 million, or 77%, related to salaries and benefits.

Branch activities are supported by a large computer-based system which maintains the corporations taxation database, records payments, triggers collection activities for delinquent accounts and is a source of information for the selection of tax returns for audit. In August 1995 the corporations taxation database was transferred to a new computer system—the integrated tax administration system (ITAS)—which is a taxpayer-based system designed to cover the larger tax programs administered by the Ministry.

Other branches within the Ministry have certain administrative, collection and enforcement responsibilities for corporations tax: the Special Investigations Branch is responsible for the more serious or complex cases of suspected non-compliance; the Collections Branch pursues outstanding taxes owed by corporations; the Taxation Data Centre processes payments; and the Tax Appeals Branch handles objections filed by taxpayers.

OBJECTIVE AND SCOPE

Our audit objective was to assess whether reasonable procedures were in place to ensure that the Ministry collects the proper amount of corporations tax in a timely manner and in accordance with statutory requirements.

While our audit focused on the Corporations Tax Branch, we also conducted work at the Special Investigations and Collections branches and at the Taxation Data Centre and reviewed related work done by the Ministry's Audit Services Branch. We also met with officials at Revenue Canada to discuss their compliance and enforcement strategies.

OVERALL AUDIT OBSERVATIONS

As is the case with all taxes, there is a difference between the amount of corporations tax actually collected and the amount that could be collected. This difference is commonly referred to as the tax gap. We concluded the Ministry needed to conduct additional research into

the areas contributing to the tax gap and focus its enforcement efforts on those areas in order to reduce the tax gap.

The Ministry considers the audit of returns to be the greatest stimulus to encouraging the voluntary compliance of corporate taxpayers and minimizing the tax gap. In our last audit of corporations tax, completed in 1986, we concluded that overall audit coverage of corporations was inadequate to encourage voluntary compliance. However, since that time audit coverage has declined by a further 57%, despite a substantial increase in the number of auditors and total audit recoveries. Of particular concern is the extremely low coverage of small corporations, which represent over 90% of all active liable taxpayers. If audits are to have their intended effect of encouraging the voluntary compliance of small corporations, more audits of these corporations must be done, and, where appropriate, penalties imposed and successful prosecutions publicized.

3.10

We are also concerned that millions of dollars in taxes have likely been foregone because of a significant decrease in the number of desk audits being done, which, on average, take about 14 hours to complete and, in prior years, have generated additional taxes of \$10,000 per audit. This situation resulted from a decline in the number of desk auditors employed in recent years and also because some desk auditors have been redeployed to cope with increased workloads in other areas within the Ministry. Additionally, delays in reviewing and processing Ontario reassessments relating to federal assessment and reassessment notices have resulted in returns becoming statute barred and the loss of millions of dollars in tax revenues. The *1996 Ontario Budget* announced significant additional audit staff for the Ministry. We were informed by the Ministry that a number of the new staff will be assigned to an enhanced desk audit program and this is expected to address these concerns.

We concluded that ministry procedures were adequate to ensure corporations tax payments were being deposited promptly and credited to the appropriate taxpayers' accounts as well as ensuring that the approximately 220,000 corporate tax returns received annually were being processed accurately.

DETAILED AUDIT OBSERVATIONS

REDUCING THE TAX GAP

One of the Ministry's key objectives is to maximize revenue by encouraging the highest possible degree of voluntary compliance from taxpayers. To know whether this objective is being achieved, indicators of its success must be measured and reported on. Currently, branch reports provide information on a number of operating results such as the dollar amount of audit recoveries and the number of field and desk audits completed. However, there is little analysis or reporting on its overall success in collecting all the tax revenues it is entitled to or on the effect of its enforcement activities on increasing taxpayer compliance.

As is the case with all taxes, there is a difference between the amount of corporations tax actually collected and the amount that could be collected. This difference is commonly referred to as the tax gap. Our discussions with the Ministry's Tax Policy Branch and the Macroeconomics Analysis and Policy Branch indicated that measuring the tax gap as it relates

to corporations tax is extremely difficult and very costly. The Ministry informed us that the current trend in other jurisdictions is to devote resources to identifying and targeting those areas that contribute to the tax gap as opposed to using audit resources in an attempt to quantify the tax gap.

Revenue Canada advised us that attempting to measure the tax gap by conducting a program of random audits is limited in its usefulness and may not be cost effective. While measures of the tax gap are interesting, they do not in and of themselves provide insight into the underlying causes of tax leakage or the range of potential remedial actions. Revenue Canada advised us that its approach focuses on identifying areas of non-compliance, assessing the causes of non-compliance and tailoring solutions to identified problems.

While we acknowledge that estimating the amount of unremitted corporations tax is very difficult, we believe there are statistics available to the Branch to assist it in identifying those areas that are contributing to the tax gap and using this information to ensure its enforcement efforts are targeted to these areas. We also believe there are indicators that could provide information on how well the Branch is meeting its overall objectives. Such indicators and statistics include:

- the amount of corporations tax recovered per field audit hour by size and type of corporation;
- the number of reassessments issued as a percentage of the number of field audits categorized by corporation type; and
- the percentage of total returns processed that were identified for additional desk audit review and ultimately reassessed.

We recognize that analyzing data of this nature is as much an art as a science. For example, higher per-hour audit recoveries or an increase in the percentage of desk-audit generated reassessments might not necessarily indicate a decline in voluntary compliance. Rather these changes could occur through better selection of high risk audit candidates or improved screening of returns. Nevertheless, measuring and analyzing such data would be an important first step toward improved reporting of the Branch's success in increasing voluntary compliance and identifying those areas that are contributing to the tax gap.

Additionally, the 1993 *Report on the Underground Economy in Ontario* by the Standing Committee on Finance and Economic Affairs contained a recommendation that the Ministry be encouraged to conduct further research into the underground economy. It recommended that areas of study could include compliance, enforcement, sector-by-sector analyses and audits.

Recommendation:

The Ministry should conduct additional research into the areas contributing to the tax gap and focus its enforcement efforts in these areas in order to reduce the tax gap.

Ministry Response:

We agree in principle. Our 1994 Memorandum of Understanding with Revenue Canada on the underground economy includes a provision which allows us to collaborate with Revenue Canada on compliance research projects to identify factors contributing to the tax gap. In December 1995, the Ministry signed an agreement with Revenue Canada to exchange information and enhance cooperation to improve the effective administration and enforcement of our respective tax laws. A federal/provincial steering committee has been established to develop cooperative efforts to minimize revenue loss caused by the underground economy, tax evasion and smuggling. Several joint projects are under way.

In the May 1996 Ontario Budget, the Minister of Finance announced that action would be taken to identify taxpayers who may be evading taxes. The Minister also announced the addition of 186 new audit and collection staff over the next three years to help collect additional revenues.

The Ministry, through analysis of its audit results, is able to focus its future audit selection in areas of non-compliance and make recommendations for changes to legislation. Examples of recent audit-initiated legislative changes include anti-avoidance rules for the Ontario Super Allowance claims and Central Paymaster arrangements.

AUDIT ACTIVITIES

The Ministry strives to maximize revenue, treat taxpayers equitably and encourage the highest possible degree of voluntary compliance. The Ministry considers the audit of tax returns to be the greatest stimulus to encouraging voluntary compliance. Audits have a twofold effect on corporations. The immediate effect consists of any additional taxes that a corporation must pay if there is an adjustment resulting from the audit. A second important effect is the awareness of corporations that audits are being conducted.

There are two ways tax returns can be audited. The first is through field audits. A field audit entails the examination of a taxpayer's records at the taxpayer's place of business to ensure all tax due has been properly reported on the tax return. The second way of auditing tax returns is through desk audits which are done primarily on smaller corporations and are carried out by staff in the Oshawa office, with subsequent written or telephone contact with the taxpayer usually being required.

Reassessments arising from audits can generally be issued only within four years of the date of the original assessment for a Canadian-controlled private corporation and five years from that date for all other corporations. If a reassessment is not issued within this period, the return becomes statute barred, which means that the return cannot be reassessed unless fraud is suspected. A taxpayer can agree to an extension of this time period by filing a waiver with either the Ministry or Revenue Canada.

As well as paying provincial corporations tax, corporations are also required to pay federal corporations tax to Revenue Canada. We were advised by Revenue Canada that its compliance

strategy is built on a balance of assistance, education and service activities on the one hand and responsible enforcement activities or programs on the other. Revenue Canada audits Ontario corporations although it does not check areas that relate solely to provincial legislation such as provincial capital tax, premium tax or other areas of differences between federal and Ontario tax legislation. An exchange-of-information agreement is in place between Revenue Canada and the Ministry.

On a monthly basis, Revenue Canada provides the Ministry with a magnetic tape listing all assessments and reassessments it has issued as well as a paper copy of all reassessment notices. To identify those that have Ontario tax implications, the Branch matches the federal tape and reassessment notices against its records. When differences arise, an auditor is assigned to determine the amount, if any, of Ontario corporations tax owing or refundable.

AUDIT COVERAGE

Since the purpose of audits is not only to verify that individual corporations have complied with legislative requirements and remitted all taxes owing, but also to encourage the voluntary compliance of all corporations, it is important that an adequate level of audit coverage be maintained each year.

In our last audit of corporations tax in 1986, we concluded that audit coverage was inadequate either to maximize tax revenues or to encourage voluntary compliance from taxpayers. In response to our concerns, the Ministry responded that it would increase its overall level of field and desk audit coverage. The increase was to be achieved by hiring additional field auditors and streamlining the desk operations area in an effort to facilitate more desk audits.

Our review of the audit coverage since 1986 indicated that, while the number of field auditors had almost doubled from 63 in 1986 to 119 in 1995, the number of field audits completed had increased by only 23%. Meanwhile, the number of desk auditors had decreased by about 10%, and the number of desk audits had decreased by more than 80%. During this period, the number of active liable corporations had increased by 32%. The net result has been that instead of increasing audit coverage, as had been planned, overall audit coverage has actually decreased by 57% since 1986.

The overall decrease in audit coverage is primarily due to a decrease in the number of desk audits currently being done. Specifically, the number of desk audits has decreased from 1,238 in the 1984/85 fiscal year to 218 in the 1994/95 fiscal year because desk auditors were redeployed to perform non-discretionary activities such as the processing and screening of returns.

While in total the number of field audits being done has increased, the average number of field audits completed per auditor each year has dropped from 12 in 1986 to 8 in 1995. Senior management informed us that this reduction was because fewer direct audit hours were available due to the impact of the *Social Contract*, travel time to the taxpayers' premises now being included in the regular working day and auditors doing more thorough audits than in the past. This latter change was reflected in the increased recovery rates per audit hour, including disallowed losses, from \$1,225 in the 1984/85 fiscal year to \$1,495 in the 1989/90 fiscal year to \$1,933 in the 1994/95 fiscal year, or an increase of 58% since 1985. Additionally, management indicated that another reason for the drop in number of audits was the increase in complexity of both tax legislation and taxpayers' accounting systems over the last decade.

Given the significant decrease in the total audit coverage of active liable corporations since 1986, we analyzed the coverage during the 1994/95 fiscal year by size of corporation—large, medium, and small—to see where the decline had taken place.

LARGE AND MEDIUM CORPORATIONS

We defined large corporations as those with over \$200 million in annual gross revenue and medium corporations having between \$5 million and \$200 million in revenue. Approximately .3% and 6.3% of the active liable taxroll falls into the large and medium categories respectively.

We reviewed the field audit coverage of large corporations for the past four years and noted that 549 field audits were completed during this period, including 156 in the 1994/95 fiscal year. This resulted in an appropriate level of audit coverage. For medium corporations we noted there were 2,552 field audits completed during the last four years, including 658 in the 1994/95 fiscal year, which is a reasonable level of coverage. However, increased coverage of medium-sized corporations would be a cost-effective strategy for encouraging voluntary compliance since audits recover much more in extra tax revenues than they cost in salaries.

SMALL CORPORATIONS

We defined small corporations as those having less than \$5 million in annual gross revenue. Small corporations represent approximately 93.4% of the active liable taxroll.

Our review of the field audit coverage of small corporations since 1991 indicated that annual field and desk audit coverage of small corporations has decreased by 61% from what was already a low coverage level at that time. This significant decrease was caused primarily by a substantial decline in the number of desk audits being done. We are concerned about such a significant decrease in the level of coverage especially because small corporations represent over 90% of the total taxroll.

Small corporations often have fewer internal controls, are owner-managed and, consequently, may be more susceptible to tax evasion than to tax avoidance. Tax evasion is an illegal attempt to avoid taxes and is subject to penalties and prosecution. Tax avoidance is the aggressive pursuit of legitimate strategies to reduce taxes. This risk assessment is supported by a 1995 survey conducted by *The Financial Post* and Carleton Opinion Marketing and Public Affairs Surveys Inc. which indicated that 26% of all small business owners admitted spending business money for personal purposes to avoid tax. In previous years, the United States Internal Revenue Service has conducted extensive audit testing directed at determining levels of voluntary compliance across different taxpayer groups. The most recent data available to us related to 1987 when it estimated that the level of voluntary compliance for small corporations was only 61.1%.

The Branch advised us that it believes issuing Ontario reassessments relating to Revenue Canada issued reassessments maintains a visible audit presence among small corporations. The Branch also indicated that its policy was to concentrate its field audit efforts on the larger taxpayers to maximize audit recoveries. For field audits of small corporations, the Ministry believes such audits should be done concurrently with audits of the personal income tax returns of the corporations' principals. Such concurrent audits can only be done by Revenue Canada

because under the tax collection agreements between the federal government and the provinces, only the federal government has access to Ontario personal income tax returns.

However, in our opinion, the issuing of Ontario reassessments based on federally issued reassessments does not mitigate the significant decrease in audit coverage resulting from the substantial decline in desk audits currently being done. General deterrence theory suggests that voluntary compliance will increase if taxpayers believe they are more likely to be audited or subject to penalties or prosecution. Accordingly we believe desk audit activity, in particular, needs to be significantly increased from its present low level.

While we acknowledge the Branch's strategy of relying on Revenue Canada for the field audit coverage of small corporations, the Branch had not recently obtained the audit coverage statistics by size of corporation from Revenue Canada. We were advised by Revenue Canada that it segregates its corporations audit coverage statistics based on gross revenue reported except for the largest corporations for which a point rating system combining factors such as gross revenue, total assets, and number of related corporate entities is used. We believe that if the Branch is to rely primarily on Revenue Canada for field audit coverage of small corporations, it is essential that the Branch periodically obtain and evaluate the adequacy of Revenue Canada's field audit coverage levels of Ontario corporations.

Recommendation:

To encourage compliance with legislative tax requirements by small corporations and to better detect and collect unpaid taxes owing to the province, the Ministry should:

- significantly increase its audit coverage of small corporations primarily through increased desk audits; and
- obtain annual audit coverage statistics and recovery rates by size of corporation and industry sector from Revenue Canada and use that information to assist in planning its audit strategies.

Ministry Response:

The 1996 Ontario Budget announced additional audit and collections staff for the Ministry. A significant portion of these new resources are committed to an enlarged desk audit program in the Corporations Tax Branch.

The Ministry has a reciprocal exchange-of-information agreement with Revenue Canada under which full details of each other's audit reassessments are provided regularly. Smaller corporations are mostly exempt from Ontario capital tax. However, the desk audit program converts Revenue Canada reassessment information into equivalent corporations tax reassessments, which include adjustments arising from a review of Ontario-only provisions and an audit of capital tax (if applicable). This, augmented by the proposed enlarged desk audit program, will maintain a visible audit presence for Ontario among small corporations.

Corporations tax audit programs and plans have been exchanged with Revenue Canada for many years. Revenue Canada's audit coverage of corporations was one factor used in the Ministry of Revenue's 1993 Audit Strategy paper submitted to Treasury Board. A revised Audit Strategy paper is currently in preparation, and audit statistics from Revenue Canada will again be used in the process.

PENALTIES

Section 76 of the *Corporations Tax Act* allows for the imposition of penalties for various situations including false statements, gross negligence, or failure to report income. The penalty is generally 50% of the understated tax in the case of gross negligence where the taxpayer has knowingly falsified information in a return or 25% where a corporation repeatedly fails to report an amount in its return. Penalties serve as a deterrent to those contemplating tax evasion.

In reviewing the field audit manual, we noted there was no policy to guide staff as to when a penalty should be applied. However, senior management advised us that, although the manual did not contain such a policy, a policy had been issued in 1978 and was still in effect. We questioned the group audit managers about the application of penalties and not one manager recalled a penalty being applied during the 1994/95 fiscal year even though 84% of all audits resulted in a reassessment. Many managers indicated that they believed penalties were not being initiated and imposed because of the lack of formal guidance in this area. It is also possible that the low level of audit coverage of small corporations, where the risk of tax evasion may be the greatest, has had an impact on the number of penalties issued.

Special Investigations indicated to us that it would be very difficult to prosecute a corporation for willful evasion unless a penalty assessment had been issued. Revenue Canada indicated to us that gross negligence penalties are levied and assessed on corporations prosecuted for willful evasion of taxes.

We understand that just after the completion of our field work, the Branch issued a revised policy providing guidance for the imposition of penalties to all field audit staff.

Recommendation:

To encourage voluntary compliance, the Ministry should monitor the implementation of its recently revised tax penalty policy which requires penalties to be levied where appropriate.

Ministry Response:

Revenue Canada corporation audit reassessments include penalty application in only one to two percent of files; the Ministry applies an equivalent penalty when issuing a corresponding Ontario reassessment. The Ministry also applies appropriate penalties for late-filed returns. The revised tax penalty policy has been incorporated into the audit manual and its effectiveness will be monitored.

REFERRALS TO SPECIAL INVESTIGATIONS

The Special Investigations Branch investigates suspected cases of tax evasion and, when the evidence supports such a charge, the Branch prosecutes the taxpayer. In the recent hearings of the Standing Committee on Public Accounts on ways to encourage retail sales tax compliance, one expert witness testified that while prosecuting the taxpayer has some deterrent effect, it is the publicizing of successful prosecutions that has the biggest impact on promoting voluntary compliance. The witness went on to say that "adequate penalties are important, but for those penalties to have an impact, people have to believe there is a reasonable likelihood that they will be caught and punished."

We agree with that witness and noted that, in its 1993 *Report on the Underground Economy in Ontario*, the Standing Committee on Finance and Economic Affairs recommended that the names of tax defrauders be published.

All ministry taxation branches are encouraged to establish a general policy to advise staff of the referral protocol to be followed when they become aware of situations that may require follow-up by the Special Investigations Branch. However, the Corporations Tax Branch had no such policy in place and, although representatives advised us that they had discussed selected cases with Special Investigations, we noted they had not made any formal referrals to the Special Investigations Branch during the 1994/95 fiscal year.

The Ministry of Finance has been publicizing selected successful tax prosecutions through periodic news releases and its annual *Tax Enforcement Bulletin*. While cases relating to other taxes such as retail sales tax and employer health tax have been listed, no corporations tax cases have been included. Special Investigations advised us that it had received very few formal audit referrals and had conducted no prosecutions relating to corporations tax during the past three years.

We were pleased to note that just after the completion of our field work the Corporations Tax Branch issued a policy which set guidelines and criteria for the referral of cases to the Special Investigations Branch when fraud or willful tax evasion is suspected.

Recommendation:

To increase corporate tax revenues by discouraging tax evasion, the Ministry should ensure that suspected cases of willful tax evasion are referred to the Special Investigations Branch for possible prosecution.

Ministry Response:

We agree with the recommendation. The Ministry is in the process of developing fraud awareness training for all its audit staff utilizing material received from Revenue Canada. As noted in the report, the Ministry has issued a policy which sets guidelines and criteria for the referral of cases to Special Investigations. This policy has been incorporated into the audit manual.

SELECTION OF AUDITS

Our review of which corporations were selected for field audit indicated there were generally good reasons for their selection. However, selection procedures could be improved by segregating and analyzing audit results by size of corporation (small, medium and large) and by industry sector (construction, real estate and so on). The Ministry agreed with this and advised us that improvements in file selection for audit are part of the Ministry's system development plans.

There are two types of desk audits. The first is an extended audit which generally involves the detailed examination of a number of different areas on a taxpayer's return. The second is an in-depth review which normally deals with a specific issue highlighted for review by staff who screen the returns identified by the computer system as requiring follow-up. In both cases the taxpayer typically must be contacted. We were advised that, on average, it takes about 14 hours to complete an extended audit and about 7 hours for an in-depth review. According to management, 95% of all extended audits and approximately 85% to 95% of all in-depth reviews result in additional taxes being reassessed, with the average reassessment being about \$10,000.

Prior to the implementation of the new ITAS computer system, the old computer system automatically ranked all processed returns using a risk-based point system to indicate the need for an extended audit. This ranking also incorporated input from the screeners. At the end of July 1995, approximately 1,400 returns had been identified by either the computer or screeners as requiring either an extended audit or an in-depth review. Approximately 500 of these returns were originally assessed in 1992 and, accordingly, will shortly become statute barred. However, during the 1995/96 fiscal year, the Branch completed no extended audits and only 27 in-depth reviews.

In following up on this matter, we noted that no extended audits had been done since 1993 because desk auditors no longer had sufficient time to do such discretionary audits as they had been redeployed to assist with non-discretionary activities such as processing and screening returns. This increased screening workload was due to three factors: a larger taxroll; the increased complexity of tax legislation; and a greater number of inconsistencies between tax returns and accompanying schedules, which resulted in more returns being automatically sent for screening. In addition, we were advised that the number of desk audit staff has decreased substantially from the 1989/90 fiscal year to the 1994/95 fiscal year.

We selected a sample of returns which would have been selected under the old points-based system and performed an extended audit on each return. Our work indicated that all returns selected had anomalies requiring follow-up with the likelihood of additional taxes being reassessed. Assuming an average success rate of 90% on extended audits and in-depth reviews and an average recovery of about \$10,000 per return, we estimated that around \$13 million in revenue could be foregone if desk audits are not carried out on the 1,400 returns identified as needing desk audits before they become statute barred.

We also noted that, unlike the old computer system, ITAS does not automatically evaluate returns using the risk-based point system to identify returns warranting a desk audit. Although the Branch believes the ability of the screeners to identify returns requiring an in-depth review

is a reasonable compensating control, we believe that the cost of programming ITAS to highlight those returns requiring an extended audit would be recouped in short order.

Recommendation:

The Ministry should program its computer system to evaluate all returns against appropriate risk-based criteria and should conduct desk audits on the returns to identify additional taxes owing to the Ministry. Additionally, those returns presently awaiting desk audit should be dealt with before they become statute barred.

Ministry Response:

We agree with the recommendation. System development work for desk audit in the Corporations Tax Branch is planned for late 1997/98. It is anticipated that the additional desk audit staff (announced in the 1996 Ontario Budget) will soon clear outstanding inventory.

FIELD AUDITS PERFORMED

The Branch has developed a comprehensive field audit manual which provides guidance to auditors for conducting field audits. The manual requires auditors to adequately plan their work and perform audit testing in three key areas—income tax (and premium tax if applicable), capital tax and interjurisdictional allocation. The manual also requires that the most recent Revenue Canada audit working papers be reviewed prior to auditing corporations with gross revenues in excess of \$100 million. Once the audit plan and approach are approved by the group audit manager, the auditor performs the detailed audit procedures. If the auditor determines that an adjustment to a tax return is necessary, the auditor will calculate the amount and advise the corporation of the adjustment.

We selected a sample of audits completed during fiscal years 1994/95 and 1995/96 and noted that in general: all three key areas were being satisfactorily tested; adjustments and reassessments were being properly calculated and supported; and group managers were reviewing files and receiving the information necessary to monitor staff. In addition, Revenue Canada's audit working papers were generally being reviewed for those audits of corporations with revenues in excess of \$100 million.

We also noted that the Ministry of Finance and Revenue Canada had recently conducted their first real-time joint audit (that is, an audit of issues prior to the filing of a corporation's tax return). Benefits were noted by all parties—the Branch, Revenue Canada and the audited corporation.

FEDERAL ASSESSMENTS AND REASSESSMENTS

The Ministry receives a magnetic tape from Revenue Canada listing all corporate tax assessments and reassessments it has issued. The Branch matches this information against Ontario

assessments and reassessments issued to taxpayers to determine if any tax adjustments are required for Ontario corporations. Desk audit is responsible for processing the adjustments. Notices of reassessment relating to adjustments, including interest and penalties, are issued to the taxpayer. Any adjustments of \$25,000 or more require managerial review and approval before the related notice of reassessment is issued.

During the 1994/95 fiscal year, the Branch processed 11,951 such tax adjustments resulting in \$27.3 million in net tax recoveries. We selected a sample of adjustments processed in the 1995/96 fiscal year and found that the tax had been properly processed and approved and that notices of reassessments had been properly calculated.

We noted that as of December 1995 the Branch had a backlog of 5,000 potential adjustments awaiting processing. Further, we were advised that as of February 1996 the Branch had not matched its records to the monthly Revenue Canada tapes for the period from March 1995 to January 1996. The Branch estimated that this matching would increase the number of backlogged potential adjustments awaiting processing from 5,000 to 11,000.

We selected a representative sample from the 5,000 potential adjustments and noted that 12% of them had become statute barred. We attempted to determine whether the Ministry had received them before they became statute barred but were only able to do so for about one in five of the statute barred adjustments. Of those, all but one had been received by the Ministry at least three months prior to becoming statute barred. For most of the statute barred cases, we found that neither an Ontario nor a federal waiver had been filed.

We estimated that the Ministry lost approximately \$250,000 in taxes from our sample of statute barred adjustments, excluding those with a waiver. Based on an extrapolation of this estimate, we believe that the Ministry has lost millions of dollars by not processing federal reassessments before they became statute barred.

The Branch advised us that it had initiated a workflow management project to address this backlog. The project goals are to computerize much of the processing of federal assessment/reassessment data, address the backlogs, prioritize any work where statute barred returns pose a problem, improve auditor productivity by as much as 20%, and eventually to redeploy staff for more productive discretionary audits. The Branch is planning full implementation of the project late in the 1996/97 fiscal year.

We also noted that the *Alberta Corporate Act* gives Alberta the authority to reassess a return within 12 months of an assessment or reassessment issued by another Canadian jurisdiction regardless of when Alberta issued its original assessment. However, the statute barred date in Ontario is based on the date of the original Ontario assessment regardless of when another Canadian jurisdiction issues its assessment or reassessment.

Recommendations:

The Ministry should clear its large backlog of unprocessed federal assessments/reassessments to minimize tax revenue losses resulting from any related Ontario tax adjustments becoming statute barred.

As a further safeguard against the loss of tax revenue due to returns becoming statute barred, the Ministry should consider adopting Alberta's practice of allowing reassessments to be issued within 12 months of an assessment or reassessment issued by another jurisdiction.

Ministry Response:

The Ministry was in the process of clearing and has now cleared up the majority of backlogged federal reassessments, mitigating Ontario revenue loss resulting from adjustments going statute barred. Additional staff now being hired and completion of the workflow management system currently under development should prevent recurrence of the temporary backlog.

We agree that the suggested amendment merits consideration as part of the Ministry's ongoing statute maintenance.

INTEREST PAID ON REFUNDS

Corporations are required to make monthly instalments for the current taxation year if both their previous year's tax payable and the current year's estimated tax exceed \$2,000. When a corporation overpays or pays its monthly instalments before the due date, the Branch will generally pay interest from the date of the payment. For federal purposes, a corporation can eliminate interest charged on deficient tax instalments by prepaying or overpaying other instalments. However, Revenue Canada does not pay interest to corporations when the interest earned on tax instalment overpayments exceeds any interest charged on deficient tax instalment payments. While the ministry system did not keep track of the amount of interest paid out in refunds, we estimated that at least \$60 million in interest was paid out in the 1994/95 fiscal year.

By Regulation, the same interest rate must be used for both refunds of overpayments and charges on underpayments. In 1995 the interest rate was approximately 9%. This differs from the practice of the federal government and several of the larger provinces which generally use a rate for refunds that is 2% lower than the interest rate charged on taxes owed. We were advised that ITAS was specifically designed so that two different rates could be used.

Recommendations:

To reduce its interest payments and to be consistent with the practice followed by the federal government and other provinces, the Ministry should consider changing the Regulation to allow for the interest rate paid on overpayments to be lower than the interest rate charged on underpayments.

Additionally, the Ministry should assess whether the federal practice of not paying interest on prepaid or overpaid tax instalments should be adopted.

Ministry Response:

The 1996 Ontario Budget announced harmonization measures with Revenue Canada on interest on unpaid taxes and refunds. These measures will be effective January 1, 1997.

RETURNS AND PAYMENTS PROCESSING

3.10

The Ministry's Audit Services Branch conducts an annual audit of the Taxation Data Centre to assess the adequacy of its financial controls and to verify the accuracy of taxation revenue reported by the Ministry. In its previous three audit reports, the Audit Services Branch concluded that revenue processing was accurate and that management practices and the system of financial controls were effective. Our review of the Branch's work supported these conclusions.

We selected a sample of returns and noted that the returns and the related assessments had been properly processed. We also selected a sample of tax payments processed since July 1995 and noted that they were generally deposited promptly and accurately recorded in the taxpayers' accounts on a timely basis.

Alternate Payment Program

The primary method of paying physicians for providing medical services to their patients is a fee-for-service basis through the Ontario Health Insurance Plan (OHIP). Physicians are paid standard fees for each service provided. These fees are detailed in OHIP's Schedule of Benefits.

The Alternate Payment Program was first introduced in the late 1960s to fund health care providers for medical services which were seen as not being adequately addressed by fee-for-service payments.

The Ministry has negotiated agreements with health care providers such as physician groups, clinics and hospitals to fund the delivery of certain medical services (for example, physicians' services pertaining to emergency health and chronic or long-term care in some general hospitals) on a non-fee-for-service basis. These agreements are authorized by the *Ministry of Health Act* and the *Health Insurance Act* and are collectively referred to as Alternate Payments. The methods of alternate payment include global budgets and sessional fees. For reporting purposes, we have grouped the various agreements into two categories — "single medical service agreements" and "academic hospital agreements."

Funding for the Alternate Payment Program is provided by reducing other ministry program budgets such as OHIP. In 1991 the Ministry and the Ontario Medical Association (OMA) entered into a six-year Framework Agreement which placed a limit on the funding available to physicians. Any conversion of funds from the OHIP budget to the Alternate Payment Program required the approval of the OMA.

The Alternate Payment Unit of the Health Human Resources Planning Division is primarily responsible for the administration of the Alternate Payment Program. For the 1995/96 fiscal year payments under the Program totalled approximately \$126 million, with \$85.5 million relating to payments made under academic hospital agreements and \$40.5 million for single medical service agreements.

The Ministry has indicated that the Alternate Payment Program initiatives continue to undergo policy development with both practical and legal restrictions affecting contract administration and management.

OBJECTIVES AND SCOPE

The objectives of our audit of the Alternate Payment Program were to assess:

- the adequacy of the systems and procedures in place to administer agreements; and

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- the adequacy of the procedures in place to measure and report on program effectiveness.

The scope of our audit included the review of a sample of agreements and related project files maintained by the Alternate Payment Unit. We also reviewed, and where warranted, relied upon the relevant audit work of the Ministry's Audit Branch.

At the time of our audit it was not known how the *Savings and Restructuring Act*, passed in January 1996, would impact on the Alternate Payment Program.

OVERALL AUDIT OBSERVATIONS

3.11

Action is required to improve the administration of the Alternate Payment Program which lacks adequate information systems and procedures to control and monitor the use of ministry funding. To ensure that value is received for the funding provided, the Ministry needs to:

- set measurable service expectations;
- develop data collection systems for both the clinical and non-clinical services provided under the agreements; and
- perform timely reconciliations of the recipients' financial statements or service data to the funding provided.

Procedures to measure and report on the effectiveness of the Program also required improvement. The Ministry had not evaluated either the Program or the individual agreements. Without periodic evaluation the Ministry cannot determine whether the amount of funding provided is appropriate for the services delivered.

DETAILED AUDIT OBSERVATIONS

SINGLE MEDICAL SERVICE AGREEMENTS

AGREEMENTS

Single medical service agreements were developed primarily to address the lack of local availability of certain medical services. Agreements currently encompass more than 18 different medical services including selected hospital emergency, intensive and chronic care wards.

Under the Alternate Payment Program, negotiations are held with health care provider groups to determine if an Alternate Payment process is the most appropriate method to fund the medical service. If both parties agree that Alternate Payments are appropriate, the negotiated terms and conditions are incorporated into an agreement. Terms and conditions would include methods of funding, services to be provided, reporting requirements and the recipient's roles and responsibilities.

Formal agreements are essential for the Ministry to hold a recipient accountable.

During our audit, we noted that 12 funding arrangements negotiated after 1991 were not formalized by signed agreements. For these arrangements, the Ministry and the Ontario Medical Association had been unable to agree on the method for converting needed funds from the OHIP budget.

In the belief that the conversion issue would be resolved shortly, the Ministry and the recipient signed monthly funding letters. Most funding letters were originally negotiated in the 1991/92 fiscal year.

Since 1991 the Ministry has been providing the 12 recipients with annual funding totalling approximately \$8.5 million pending the finalization of formal agreements. However, the funding letters did not contain the terms and conditions necessary to protect the Ministry's interests. For example, the funding letters did not:

- require the recipient to submit any service or financial data to support the amount of funding received;
- allow the Ministry access to the recipient's records; and
- detail the services and responsibilities of the physicians funded by the letters.

We also noted that two agreements had expired but the Ministry continued to make payments. For example, one of the agreements, with an annual payment of \$135,000, had expired in 1991.

Recommendation:

The Ministry should ensure that all funding arrangements are covered by formal agreements that are current and contain the necessary provisions to protect the Ministry's interests.

Ministry Response:

We agree with the recommendation. An Alternative Funding Policy Framework has now been developed within the Ministry which prioritizes the work on existing funding arrangements, renegotiations of existing contracts and the negotiations of new requests.

Further, senior management has directed that a comprehensive list of funding letters and other financing arrangements with detailed information be prepared for its review and to identify key priorities for inclusion in the 1996/97 negotiation schedule.

SUBMISSION OF FINANCIAL AND SERVICE DATA

To ensure the accuracy and validity of the payments to recipients, it is important that appropriate monitoring and control procedures be established.

The Ministry provides funding to Alternate Payment Program recipients based on estimated service levels or a negotiated budget. The submission of actual financial and service data by the recipient is necessary to enable the Ministry to verify how the funding was used and to assess the appropriateness of existing funding. The lack of information prevents the Ministry from determining whether the expected value is received for the funds provided and whether any funded amounts are recoverable from the recipient.

With respect to the sample of agreements and associated files we reviewed, we noted that:

- Two recipients who received annual funding totalling approximately \$1.7 million were not requested to submit actual financial information. Service data that was submitted to the Ministry was not comparable to the basis used for determining funding levels.
- Twenty-three recipients who had received annual funding totalling approximately \$21 million had submitted service data or financial information. However, the Ministry had not reconciled to the funding provided the data or financial information submitted by recipients to whom \$14.9 million of funding had been provided.

As part of our audit, we reconciled the recipients' service and financial data to the funding provided over the two-year period ending March 31, 1995. We calculated that the Ministry overpaid nine recipients by approximately \$540,000. The Ministry intends to verify the amounts and make the necessary recoveries.

Recommendations:

To ensure that value is received for the funds provided, the Ministry should require recipients to submit actual service data or audited financial statements.

In addition, to ensure that the proper level of funding is provided, the Ministry should perform reconciliations of the recipients' financial statements or service data to the funding provided and recover any overpayments.

Ministry Response:

All recipients will be required to submit appropriate service data during the current fiscal year. This data will assist in the provision of the necessary information to cost these services for contract management and future renegotiations. Additional reporting may also be undertaken.

The process for recovery is underway or completed in all arrangements including any overpayments for 1995/96. All future negotiations and renegotiations will include provisions for reconciliation when applicable.

FUNDING INCREASES

Historically, most Alternate Payment Program recipients have been awarded economic increases in funding equivalent to the rate increases for physicians paid through OHIP. These

increases were eliminated with the introduction of the Social Contract in 1993. Certain funding increases can be awarded if the recipient can justify the need.

However, we noted that four recipients were awarded funding increases totalling approximately \$170,000 without any supporting documentation. Three of these increases were awarded at the end of the 1993/94 fiscal year. One of these three recipients was awarded a \$48,000 increase at a time when it had surplus funds totalling \$284,000 accumulated from ministry funding. The Ministry determined in January 1996 that the recipient had been overfunded \$372,000 of the approximately \$1.35 million provided by the Ministry in the previous two fiscal years. The Ministry has since recovered the surplus funds.

Recommendation:

To ensure that funding increases are warranted, the Ministry should ensure that all requests for increases are documented and properly assessed.

Ministry Response:

To justify future funding increases, documentation will be requested from the recipients and will be assessed before approval is given.

MONITORING PAYMENTS TO PHYSICIANS

Physicians paid under the Alternate Payment Program can also provide medical services which are not covered by the agreements. They are entitled to bill for these services and receive payment from OHIP. For example, physicians providing medical services funded under a hospital emergency services agreement can also provide other medical services through private practices and receive payment from OHIP.

Data on the medical services provided under single medical service agreements does not form part of the OHIP database. Thus the Ministry cannot compare information from OHIP and the Alternate Payment Program. This limits the Ministry's ability to monitor whether physicians are receiving payments for the same medical service from both the Alternate Payment Program and OHIP.

Moreover, for single medical service agreements, the Ministry generally had not established a system to monitor the potential for duplicate payments. In this regard, at the request of the Alternate Payment Unit, the Ministry's Internal Audit Branch conducted an audit of an Alternate Payment agreement. The audit report noted inappropriate billings totalling \$190,000.

For an effective monitoring system, the Ministry requires a current roster of physicians providing services under each agreement. This would enable the Ministry to periodically compare payments that physicians received under the Program with their OHIP billings. However, the recipients were not providing timely revisions to enable the Ministry to keep rosters up to date.

Recommendation:

In order to detect potential duplicate payments, the Ministry should:

- develop a system to compare payment data from OHIP and the Alternate Payment Program (APP); and
- require the recipients to submit physician roster changes on a timely basis.

Ministry Response:

We agree with the recommendation. The APP now has 11 recipients registered as shadow-billing clinics [clinics which continue to submit data on services provided as though they were on a fee-for-service payment system]. When program staffing permits, the remaining contracts will be altered to add a shadow-billing requirement. Finally, as a last step, complex monitoring systems will be developed to compare all OHIP and APP data.

For monitoring purposes, the APP is requiring all new or renegotiated contracts to submit a monthly status report even if there is no change to the roster.

ACADEMIC HOSPITAL AGREEMENTS

ACCOUNTABILITY

In recent years the Ministry has been working with physician groups in academic hospitals to create alternate methods of funding their activities and services. Unlike single medical service agreements, academic hospital agreements encompass more than one specific medical service or activity.

As at March 31, 1996 the Ministry had negotiated five agreements to provide funding for physicians' services performed in academic hospitals. Four of these agreements cover all physicians' services provided at two academic hospitals. The remaining agreement covers all physicians' services provided at three academic hospitals and their associated faculty of medicine.

The primary objective of the agreements is to provide the physicians and academic medical departments with funding stability through a single funding envelope. This replaces funding that was previously provided through fee-for-service billings by physicians through OHIP, grants to support the education of physicians within academic hospitals and their existing alternate payment agreements.

The amount of funding provided under academic hospital agreements is primarily based on the OHIP billings in the year preceding the signing of the agreement for the physicians covered by the agreement. Additional funding may also be provided as part of the negotiation process between the recipients and the Ministry.

The recipient organization allocates funding to the various physicians covered by the agreements. The physicians are expected to manage their clinical, educational and research responsibilities appropriately to meet the medical needs of their patients.

To hold recipients accountable for the management of public funds requires the establishment of an effective accountability process. The process consists of four steps: setting expectations, contracting, reporting and taking corrective action.

A key principle stated in the negotiation process was that “all of the deliverables of the agreements — research, education and clinical service — were equally important to both parties.” The Ministry expected the recipient to maintain the same general service levels.

Based on our review of academic hospital agreements, we believe that the setting of measurable expectations, or the results that the recipient is expected to achieve with the funding, requires improvement.

We noted that the agreements with the academic hospitals did not indicate the specific results or performance targets that the Ministry expected the recipients to accomplish with their funding. Rather, the recipients’ responsibilities under the agreements were very general.

Currently, the allocation of ministry funding among the various deliverables is the recipient’s responsibility. For example, should the demand for clinical services decrease, the recipient may allocate more physician time to research or education. The Ministry requires assurance that resources allocated by the recipient to the various activities, such as research and education, are appropriate.

Without setting measurable performance targets, it is difficult to determine what is being accomplished and how this compares with expectations.

To illustrate the need for performance targets, we noted one agreement where physicians were shadow-billing. The funding originally established in 1990 was based on \$9 million in clinical services. In June 1995 the Ministry produced a report which stated that the value of clinical services provided by these physicians in the 1994/95 fiscal year was only \$7 million. At the time of our audit, the Ministry had not analyzed this information nor had it requested an explanation from the recipient.

Recommendation:

The Ministry should link funding for clinical, research, educational and other activities directly to measurable performance targets.

Ministry Response:

We agree in principle with the understanding that performance targets do not exist in many areas and will require a developmental period.

INFORMATION REPORTING REQUIREMENTS

Reporting requirements for the activities of academic hospitals are included in the agreements. These requirements include audited financial statements, educational activity reports and the results of research conducted.

Our sample of academic hospital agreements indicated that the recipients had not met their reporting requirements. Specifically, we noted that agreements with two recipients required reports to be submitted on their research and educational activities on July 1, 1994, the effective date of the agreements, and annually thereafter. Neither recipient has submitted the July 1994 report. In July 1995 one recipient did supply some information, but Ministry staff found it to be insufficient and requested more detailed information. The second recipient has yet to submit any information on the activities funded under the agreement. Also, neither recipient has submitted the required annual audited financial statements.

Another agreement required the recipient to inform the Ministry of physician changes and the estimated time spent by physicians on clinical, research and educational activities. However, the Ministry had not received any information since the agreement was signed in 1990.

None of the agreements sampled specified the level of detail to be provided to meet ministry information needs. Without detailed information, the Ministry cannot properly assess the appropriateness of time and resources spent on clinical, research and educational activities.

Recommendation:

To enable the Ministry to properly evaluate the adequacy of resources committed to clinical, research and educational activities and gear the funding accordingly, the Ministry should:

- specify the level of detail to be provided by the recipients; and
- enforce the current reporting requirements.

Ministry Response:

The Alternate Payment Unit is working with the new Alternate Funding Plan to ensure that all data required in the contract are submitted and analyzed.

Further, the appropriate level of detail is currently being determined and the reporting requirements adjusted.

DATA COLLECTION SYSTEMS

Prior to the introduction of academic hospital agreements, data on clinical services being provided by physicians were collected as part of the OHIP payment system. Physicians covered by Alternate Payment Program agreements are not required to submit service data to the Ministry.

Recognizing the need for such data, the Ministry and recipients are developing data capturing and reporting systems. At the time of our audit the status of such information systems for the three largest agreements was as follows.

- For an agreement signed in 1990, a system has been developed to collect clinical information.
- An information system was being developed for one of the two agreements signed in July 1994. This system is expected to be operational in the fall of 1996. For the second agreement, a reporting system for clinical services has been partially developed.

During the development of these systems, data on the clinical services provided by physicians under alternate payment agreements are not being collected by the Ministry. The lack of such data restricts the Ministry's ability to manage health services both inside and outside the agreements. For example, the Ministry is unable to monitor:

- patient eligibility for medical services provided, as required by the *Health Insurance Act*; and
- the potential flow of clinical services from physicians funded under the Alternate Payment Program to OHIP-funded physicians, resulting in additional funding pressures on the OHIP budget.

Recommendations:

For proper health care management and planning, the Ministry should ensure that data collection systems that will provide the necessary information are developed on a timely basis.

Physicians providing clinical services under alternate payment agreements should be required to continue providing information to OHIP until replacement systems are operational.

Ministry Response:

We agree with the recommendations. The Ministry has developed a system to collect and process patient encounter data and is currently testing the system with one academic health centre's data. When it is operational in the fall of 1996, the system will be used by the Ministry to link data on clinical services provided by the recipient to the existing data maintained by OHIP.

During renegotiations, the information provided by the system will also enable the Ministry to adjust terms, conditions and funding levels.

It is expected that this system will be used to collect and process encounter data for a number of existing and future contracts. In the interval, the Ministry is requiring recipients to shadow bill for all new contracts negotiated and signed since 1995.

AGREEMENT FUNDING COMPONENTS

During our audit, we noted some areas of concern regarding funded amounts for two academic hospital agreements.

In 1990 the Ministry and two other funding agencies entered into a one-year interim funding arrangement with a recipient. Under the terms of the arrangement, the Ministry would provide \$16 million of the recipient's annual \$23 million operating budget. This was considered an interim arrangement pending the negotiation of a long-term funding agreement and did not contain specific financial reporting requirements. However, the Ministry could inspect the recipient's records.

Up to March 31, 1996 the Ministry had provided the recipient with approximately \$100 million in funding. Although patient encounter data and other non-financial reports had been received and reviewed, the Ministry had not performed any inspections of the recipient's financial records or received any financial reports indicating how these funds were spent.

The interim arrangement has now existed for six years. Since the agreement was based on estimated costs, there is a need to verify the accuracy of these estimates and the contributions of the other funding agencies. For example, financial information and analysis is required:

- to support the continuing need for \$1.3 million to cover the recipient's 1990/91 projected annual operating deficit. Correspondence at the time indicated the deficit was partially attributed to poor record-keeping by the recipient; and
- to verify the accuracy of the funding assigned to clinical services provided by the physicians. The original estimate of \$9.2 million was prepared by the recipient using its physicians' billings. Unlike some other agreements, the billings under this agreement were never compared with the Ministry's OHIP records.

Program management indicated that the Ministry's Internal Audit Branch will be requested to conduct an audit of the recipient's use of ministry funds as part of future negotiations. However, the lack of annual financial information may make it more difficult to conduct this audit.

In the second academic hospital agreement, the annual funding of approximately \$50 million was based on physicians' OHIP billings, funding provided by other ministry programs and existing smaller alternate payment arrangements. We noted that:

- The Ministry did not verify the amount of funding provided under an existing smaller Alternate Payment Program agreement before the amount was incorporated into the academic hospital agreement. We estimated that the correct amount of funding should have been \$95,600, or 50% of the amount that was actually incorporated in the agreement.
- Included in the agreement was a negotiated annual "incentive" of \$3 million which was "to be directed to filling vacancies, program realignment and new initiatives relating to the population health, etc." However, correspondence with the recipient indicated that some of the funding was to be used to eliminate accumulated trust account deficits. The agreement did not require the recipient to report on how the funds were used.

Recommendation:

To ensure proper accountability for the use of public funds, the Ministry should:

- verify the accuracy of the amounts to be incorporated into future agreements; and
- for negotiated funding elements, obtain and evaluate documentation on the use of these funds.

Ministry Response:

We agree with the recommendation. During the negotiations where a base-year concept was used for the conversion of funding from fee-for-service and other ministry budgets, it was necessary to incorporate some estimated funding amounts into the contracts. Upon verification of these amounts, the actual funding provided may be higher or lower than the estimate.

Some Alternate Payment Program contracts have mid-term reopener provisions that deal with issues relating to funding levels. As part of these renegotiations, the Alternate Payment Program will seek direction from senior ministry management on any required adjustment (both upwards or downwards) to the original estimates.

It was the Ministry's expressed intent to form a single window transfer payment from a number of smaller budget centres. Further, it was never the intention of the Ministry to require the recipient to provide documentation on how the funding for each element was used. Rather, the Ministry expects the recipient to provide documentation on the use of the total annual funding provided in the contract. We are in the process of requesting additional financial information from recipients.

PROGRAM EFFECTIVENESS AND EVALUATION

Since the introduction of the Alternate Payment Program in the late 1960s, many of the single medical service agreements have been developed in response to a specific policy or health care issue. Consequently, the Program has become a collection of agreements to reimburse physicians' services as an alternative to OHIP.

The original objective of the Alternate Payment Program was to improve access to medical services. However, this objective no longer fully represented the future direction of the Program as it evolved.

Procedures to measure program effectiveness cannot be introduced until program objectives and performance targets have been developed. In 1995 the Ministry began reviewing the Program with the intent of expanding and developing objectives. The new objectives include cost control, and improved physician accountability for outcomes, funding and administration. At the time of our audit, the Ministry was still in the process of finalizing these objectives.

The Ministry needs to assess whether it is more efficient to measure the effectiveness of the Alternate Payment Program by itself or as a part of larger ministry programs. For example, in the Ministry's Regional Trauma Program, while the Alternate Payment Program provides funding for the physicians' services, the Institutional Health Group provides funding for the operation of the facility.

The single medical service agreements do not contain evaluation clauses and have not been evaluated. A review of the current funding arrangements is required to ensure that the agreements are still the most efficient and effective method of providing the required medical services. This process would include a review of the funding rates, the services provided and the recipients' roles and responsibilities.

In our review of these agreements, we noted instances where the Ministry was funding similar medical services at differing rates. For example, we noted that annual funding rates for physicians' services at chronic care hospitals in one municipality ranged from \$1,524 per bed to \$1,950 per bed.

The Ministry is aware of the need to review agreements to ensure that they are still relevant. In this regard, in a January 1996 submission to senior ministry management, program management indicated that "funding evaluation was required" for all single medical service agreements.

In addition, recent agreements negotiated with academic hospitals require recipients to conduct evaluations of their activities. Specifically, the agreements require recipients to "evaluate the impact and effectiveness of the agreements on clinical service, educational and research missions."

In reviewing this requirement, we noted that the Ministry did not inform the recipients of Alternate Payment Program funding what methods were to be used in evaluating their activities. For example the agreements did not specify:

- what activities were to be evaluated;
- how the evaluation was to be conducted;
- how the results would be used; and
- whether the evaluation would be conducted by internal or external evaluators.

The development of an evaluation methodology would ensure that the results were impartial and met the requirements of both the Ministry and the recipient.

Recommendation:

To ensure that medical services are provided in an effective manner the Ministry, in conjunction with the recipients, should develop:

- procedures and performance indicators to measure program effectiveness;
 - a plan for conducting funding evaluations on existing single medical service agreements; and,
 - guidelines for evaluating and reporting on the services delivered by the recipients.
-

Ministry Response:

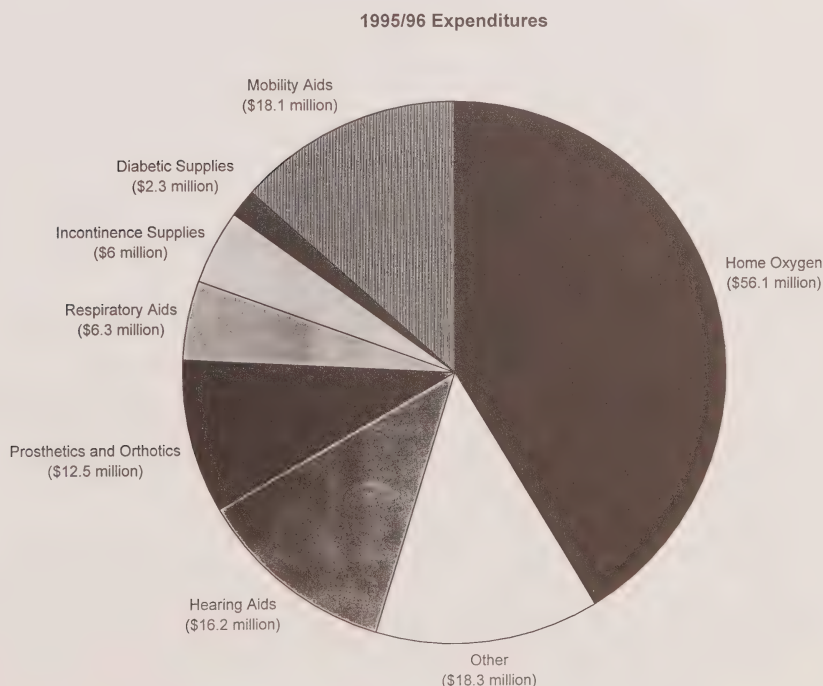
We agree with the recommendations. As part of the Alternative Funding Policy Framework, issues such as program effectiveness, program evaluations and guidelines are now addressed. In addition, template agreements will be developed which will then be applied to each category of agreement. Renegotiations will occur taking into account the Ministry's Alternate Payment Program priorities.

Assistive Device Services Activity

3.12

The Assistive Device Services Activity consists of the Assistive Devices and Home Oxygen Programs and is administered by the Ministry's Assistive Devices Branch. The mission of the Activity is to facilitate the rehabilitation of Ontario residents who have long-term physical disabilities by providing financial assistance to purchase selected basic personalized assistive devices (for example, wheelchairs, hearing aids, incontinence supplies and home oxygen) appropriate for the individual's needs and essential for independent living.

For the 1995/96 fiscal year, assistance was provided to 135,000 individuals through transfer payments totalling \$135.8 million as follows:



OBJECTIVES AND SCOPE

The objectives of our audit of the Assistive Device Services Activity were to assess whether the Ministry had adequate procedures in place:

- to measure and report on the effectiveness of the Activity;
- to approve, process and pay claims; and
- to ensure that resources were managed with due regard for economy and efficiency.

In conducting our audit, we reviewed the operations of the Assistive Devices Branch in Toronto and Kingston and the related operations of the Supply and Financial Services Branch which processes payments for the Activity. We also reviewed, and where warranted, relied on the relevant audit work conducted by the Ministry's Audit Branch.

OVERALL AUDIT OBSERVATIONS

In general, the Ministry had adequate procedures in place: to measure and report on the effectiveness of the Assistive Device Services Activity in providing financial assistance appropriate for individuals' needs; and to ensure that claims were properly approved, processed and paid. However, to ensure that expenditures are more effectively contained, the Ministry needs to:

- periodically review the basis and continued appropriateness of funding levels;
- ensure that appropriate criteria are used to determine the eligibility of individuals;
- implement guidelines for ensuring the independent determination of eligibility for Home Oxygen Program benefits; and
- negotiate better prices with vendors providing home oxygen.

DETAILED AUDIT OBSERVATIONS

PERFORMANCE MONITORING AND EVALUATION

The Assistive Devices Branch measured the effectiveness of the Assistive Device Services Activity in providing financial assistance appropriate for individuals' needs by monitoring total expenditures and the number of individuals receiving assistance. The Branch also used client surveys to measure user satisfaction with certain services and devices they received. The results of these surveys indicated that users were generally satisfied.

Standing committees, consisting of users, health professionals, vendors and manufacturers, have been established for most types of assistive devices. The role of these committees includes providing advice and recommendations to the Branch relating to eligibility criteria, funding and devices to be covered. In addition, the committees monitor strategies to evaluate performance and advise on the development of program evaluation procedures.

APPROVAL, PROCESSING AND PAYMENT OF CLAIMS

CLAIMS PROCESSING

The Branch verifies that individuals applying for assistance meet all eligibility criteria and that the device is eligible for coverage. For purchases of some devices, grant payments are made directly to eligible individuals. However, for most devices, vendors submit a claim for payment to the Supply and Financial Services Branch which then confirms the claim information (for example, the eligibility of the individual and the device) with the Assistive Devices Branch and pays the vendor.

The claims that we reviewed were generally properly approved, processed and paid.

VERIFICATION OF CLAIMS

To verify claims, the Assistive Devices Branch periodically sends letters to individuals receiving benefits from the Assistive Device Services Activity and to their physicians. These verification letters have enabled the Branch to become aware of incorrect and false billings resulting in a number of vendors being successfully prosecuted for fraud in recent years.

In 1995 the Branch sent verification letters to approximately 1,500 individuals and physicians, and 85% responded. Any discrepancies highlighted in the responses were to be followed up. We selected a sample of verification letters and noted that the discrepancies were adequately followed up and corrective action was taken where warranted.

BENEFITS FROM OTHER GOVERNMENT SOURCES

According to the policies of the Assistive Devices Branch, to be eligible an applicant must not be entitled to coverage for the authorized device under the *Workers' Compensation Act* or under the Veterans Treatment Regulations made under the *Department of Veterans Affairs Act (Canada)*. However, the Branch had no procedures in place to determine whether assistance was being provided to applicants who were entitled to coverage under these Acts.

We understand that concerns with patient confidentiality under the *Freedom of Information and Protection of Privacy Act* have prevented the Branch from verifying client information with other government bodies. At the time of our audit, we were advised that the Branch was in the process of revising its application forms in order to obtain the consent of applicants to verify information with the Workers' Compensation Board and the Department of Veterans Affairs. The Branch was also seeking the cooperation of these organizations with respect to sharing the required information.

We will follow up these initiatives to determine whether the Ministry is ensuring that assistance is not provided to individuals eligible for benefits from the Workers' Compensation Board or the Department of Veterans Affairs.

MANAGEMENT OF RESOURCES

CONSISTENCY IN ELIGIBILITY AND FUNDING

Since the inception of the Assistive Device Services Activity in 1982, there have been many changes to the funding provided and the eligibility criteria. Currently there are a variety of policies which are not consistent among or within the categories of assistive devices, as the following examples illustrate.

- Home oxygen is fully covered for seniors, social assistance recipients, individuals receiving home care services, and residents of Homes for Special Care and long-term care facilities. For other individuals, the Home Oxygen Program pays 75% of the established rates.
- Some device categories have different rates for different age groups. For example, the Branch generally funds adults up to a maximum of \$260 every five years for hearing aids. Individuals under 19 years of age are generally funded up to a maximum of \$1,000 every three years, or \$1,350 every five years depending on the type of hearing aid purchased. Adults who initially received financial assistance for hearing aids before they were 19 continue to receive funding at the “under 19 years” rate every five years.
- In order to receive funding for a wheelchair, new applicants 19 years or over must be able to operate the wheelchair without assistance. Applicants under 19, and adults who previously received funding for a wheelchair when they were under 19, do not have to be able to operate the wheelchair without assistance.
- Funding for incontinence supplies (for example, diapers, catheters and enema supplies) was established in 1982 for individuals up to age 19, that is, for those who were born after July 1, 1963. The July 1, 1963 date has remained in effect, and therefore individuals up to age 32 were eligible to receive financial assistance for incontinence supplies at the time of our audit.

Recommendation:

To ensure consistency and fairness, the Ministry should review eligibility requirements and funding provided for each assistive device category.

Ministry Response:

The Ministry agrees with this recommendation and has been looking at these issues through its business planning process.

ELIGIBILITY CRITERIA

HOME OXYGEN

To be eligible for financial assistance under the Home Oxygen Program, an individual must have a chronic illness that requires long-term oxygen therapy. For continuing benefits, indi-

viduals must reapply annually. The home oxygen program had expenditures totalling \$56.1 million for the 1995/96 fiscal year and assisted 20,700 individuals.

Except for children under 19 years of age, first time applicants for home oxygen are required to have a blood test to determine eligibility for funding. Children and renewal clients can have a simpler but less accurate oximetry test (an infrared reading of the oxygen level in the blood). At the time of our audit, the Assistive Devices Branch did not have detailed guidelines or standards in place for conducting oximetry tests; however, we were informed that draft guidelines were being developed. Additionally, Branch policy did not require individuals conducting oximetry tests (generally therapists) to be independent of oxygen suppliers. Moreover, we found that 75% of the oximetry tests we sampled were performed by individuals employed by home oxygen suppliers.

If the Branch determines that an individual does not meet the medical criteria to qualify for oxygen funding, the individual can appeal to the Branch. Although the Branch does not track the number of appeals approved or rejected, we noted that in 95% of the appeal cases we sampled the individuals were eventually granted assistance. Therefore, we question whether the appeal process is functioning properly.

Recommendation:

To ensure that home oxygen is provided only to eligible individuals, the Ministry should:

- **implement guidelines for conducting independent medical tests for determining eligibility; and**
- **assess whether the appeal process is operating effectively.**

Ministry Response:

The audit report notes that guidelines are being developed for conducting oximetry tests for home oxygen eligibility. These should be in place by this fall.

The Ministry will also be undertaking pilot projects starting this fall where the assessment function will be independent of the health care professionals employed by those who supply the product. This will confirm whether or not it is cost-effective for the Ministry to pay for independent assessments.

The Ministry agrees that the appeal process should be reviewed to ensure that it is operating effectively.

INCONTINENCE SUPPLIES

The Assistive Devices Branch provides grants for incontinence supplies to individuals who meet specific medical and other established criteria. The amount of the grant generally ranges from \$400 to \$1,100 per annum, depending on an individual's age and the type of incontinence

supplies used. In the 1995/96 fiscal year, the incontinence supplies program had expenditures of \$6 million and assisted 7,200 individuals.

Physicians initially certify an individual's medical condition and the type of incontinence supplies to be used. Annually thereafter, the Branch sends individuals re-application forms. The grant amount is adjusted if an individual indicates changes in the type of incontinence supplies used. While the Branch has some basic checks for reasonableness, there is no requirement for additional certification by a physician.

Recommendation:

To ensure that grant amounts are appropriate, the Ministry should require a physician's certification for changes (other than age related changes), especially those which result in an increase in the grant for incontinence supplies.

Ministry Response:

The Ministry accepts the audit recommendation. We will ask for confirmation from a doctor if a person asks to switch to a higher grant category for incontinence supplies for any reason other than age.

PRICING

HOME OXYGEN

There are three methods of providing home oxygen:

- Liquid oxygen—stored in containers or portable units and turns into gas when it leaves the container;
- Concentrators—convert room air into concentrated oxygen; and
- Cylinders—tanks of compressed gaseous oxygen.

Liquid oxygen and concentrators account for over 97% of the total cost of home oxygen used by program recipients.

Since 1993 reimbursement rates have been lowered 33% for liquid oxygen and 12% for concentrators. The Assistive Devices Branch and oxygen suppliers' associations negotiated monthly rates for home oxygen, effective from November 1994 until March 1998. For eligible individuals, the Branch generally pays suppliers \$347 per month for a concentrator or \$526 per month for liquid oxygen. These rates include initial installation costs, equipment rental, refilling liquid oxygen tanks, professional services and subsequent maintenance.

A December 1990 ministry policy and pricing review indicated that a concentrator cost between \$1,300 and \$1,500 to purchase. We were informed that concentrators generally last from five to seven years. The Ministry has not conducted any recent reviews to determine whether

the monthly rates paid for concentrators and liquid oxygen are reasonable. These reviews are needed to determine what potential savings are available.

In the 1995/96 fiscal year, liquid oxygen accounted for 51% (55% - 1994/95) of home oxygen expenditures. We were informed that although the Branch intends to reduce liquid oxygen expenditures to 35%, a time frame for reaching this goal cannot be established due to the difficulty of convincing those already using liquid oxygen to switch to other suitable forms of oxygen. We estimated that approximately \$3 million could be saved annually if the goal is attained.

Branch policy is to fund liquid oxygen if the prescribed oxygen dosage is high (over four litres of oxygen per minute) or if the patient is mobile at least three hours a day at least three times a week. The Branch relies on physicians and vendors to determine mobility. We noted that 73% of the approved applicants for liquid oxygen that we sampled had a prescribed oxygen dosage of less than four litres per minute, but still received liquid oxygen funding for mobility reasons.

A recent branch survey noted that about 10% of the liquid oxygen users contacted had been supplied with concentrators for in-home use and only enough liquid oxygen to meet their mobility needs. However, the suppliers were still paid the full monthly liquid oxygen rate.

Several of the provinces that we surveyed have more stringent rules covering the provision of oxygen for mobility purposes. For example, British Columbia only funds liquid oxygen for up to three hours per day for individuals who are mobile. In Alberta, mobile individuals with a low prescribed oxygen dosage are provided with mobility packages, consisting of a concentrator and portable cylinders fitted with oxygen-conserving devices for extended outdoor use. These individuals can upgrade to liquid oxygen at their own expense.

Recommendation:

To reduce oxygen expenditures, the Ministry should:

- review at the earliest opportunity the costs relating to oxygen concentrators and liquid oxygen; and
- consider more cost-effective alternatives before paying the liquid oxygen rate.

Ministry Response:

The Ministry will initiate a review of the concentrator and liquid oxygen rates in preparation for negotiations to replace the existing pricing agreement when it expires in March 1998.

A supplier reimbursement rate of \$437 per month was introduced in September 1996 for people who are on a concentrator with a conserving device and cylinders for mobility. Since this is \$89 per month less than the liquid rate, it should provide a cost-effective alternative to liquid for those who require mobility while on home oxygen, and reduce the time it will take the Ministry to achieve its target of no more than 35% of expenditures and 20% of users on the liquid modality.

BLOOD GLUCOSE TESTING STRIPS

Blood glucose testing strips are used by diabetics to monitor the sugar level in their blood. The Ontario Drug Benefit Program pays for blood glucose testing strips for Ontario seniors, social assistance recipients, individuals receiving home care services, and individuals in Homes for Special Care and long-term care facilities. In addition, the Trillium Drug Program provides access to the Ontario Drug Benefit Program for individuals who spend a high portion of their incomes on testing strips and drugs.

For individuals who are insulin-dependent and are not eligible for other sources of assistance, the Assistive Devices Program provides financial assistance for these testing strips through the Canadian Diabetes Association, Ontario Division (CDAO). The CDAO reimburses individuals for 65% of the cost of purchasing testing strips up to a \$500 annual maximum. Reimbursements for testing strips in the 1995/96 fiscal year totalled \$735,000.

We question whether providing financial assistance for blood glucose testing strips through both the Assistive Devices Program and the Ontario Drug Benefit Program is economical.

Recommendation:

In order to ensure that services are delivered in an economical manner, the Ministry should investigate the feasibility of consolidating the assistance programs for blood glucose testing strips.

Ministry Response:

The Ministry has made the decision to consolidate the programs that help pay for test strips. A review of options is underway.

OTHER MATTER

TAX TREATMENT OF GRANTS

The purchase of certain types of devices is financially assisted through grants paid directly to eligible individuals. In the 1995/96 fiscal year, approximately \$15.7 million was paid in grants.

The Assistive Devices Branch does not inform individuals of the proper tax treatment of these grants. We understand that the Branch had contacted Revenue Canada to determine the proper tax treatment but was given conflicting advice.

3.12

Recommendation:

To help ensure that medical supplies purchased with funding from the Assistive Devices Program are properly treated for tax purposes by grant recipients, we urge the Ministry to obtain clarification from Revenue Canada on the proper tax treatment of these grants. This information should then be communicated to grant recipients.

Ministry Response:

The Ministry has sought confirmation from Revenue Canada on the proper tax treatment of grant funds and has advised all recipients accordingly in a letter sent this summer.

Drug Benefits Program

The Drug Benefits Program includes the Ontario Drug Benefit Program, the Trillium Drug Program and the Special Drugs Program.

- The Ontario Drug Benefit Program provides many prescription drug products at no cost to Ontario seniors, social assistance recipients, individuals receiving home care services and individuals in homes for special care and long-term care facilities. Commencing in 1996, eligible individuals will be required to make a co-payment toward the cost of their prescription drugs.
- The Trillium Drug Program provides access to the Ontario Drug Benefit Program for people whose drug expenditures exceed a certain portion of their incomes.
- The Special Drugs Program provides funding to cover the costs of certain drugs used in the treatment of specific conditions.

These three programs operate under the *Ontario Drug Benefit Act*, the *Drug Interchangeability and Dispensing Fee Act* and the *Health Insurance Act*. For the 1995/96 fiscal year, the programs had total expenditures of \$1.4 billion, of which \$321 million was recovered from the Ministry of Community and Social Services for drug benefits paid on behalf of social assistance recipients.

The Ministry's Drug Programs Branch is responsible for administering the Drug Benefits Program. The mission of the Branch is to provide leadership in achieving optimal pharmaceutical services for the protection and improvement of the health status of the residents of Ontario.

The Branch is also responsible for the ongoing development and maintenance of the Health Network, which is a computer system operated on behalf of the province by a service bureau. The Health Network links the Branch to pharmacies and other dispensers (subsequently referred to as pharmacies) throughout Ontario, providing on-line information to pharmacists and enabling the on-line submission and adjudication of drug claims. When a pharmacist submits a claim, the Health Network checks the claim against specific criteria (for example, eligibility of the individual and the drug) as well as information about potentially dangerous drug interactions (adverse reactions which may occur when certain drugs are taken together), duplicate prescriptions and other potential problems.

The Drug Quality and Therapeutics Committee is an independent advisory group established under the *Ministry of Health Act* to evaluate the quality, therapeutic value, interchangeability and cost of drugs, as well as their suitability for funding by the Ontario Drug Benefit Program. The Committee includes experts in the fields of medicine, pharmacy and health economics.

OBJECTIVES AND SCOPE

The objectives of our audit of the Drug Benefits Program were to assess whether the Ministry had adequate procedures in place to:

- measure and report on the effectiveness of the Program;
- ensure compliance with legislation and assess whether its policies and procedures for the approval, processing and payment of claims were adequate and were being followed; and
- ensure that resources were managed with due regard for economy and efficiency.

In conducting our audit, we reviewed the operations of the Drug Programs Branch in Toronto and Kingston, the operations of the Health Network and relevant work completed by the Ministry's Audit Branch. We also met with members of the Drug Quality and Therapeutics Committee and researchers at the Institute for Clinical Evaluative Sciences in Ontario. In addition we spoke with medical experts at the University of Toronto and the Centre for Evaluation of Medicines.

3.13

OVERALL AUDIT OBSERVATIONS

In general, the Drug Benefits Program had adequate procedures in place to ensure compliance with legislation and that claims were properly approved, processed and paid. However, in order to effectively contain Program expenditures, the Ministry needs to give greater consideration to both the cost and utilization of the drugs covered. In particular, further efforts are needed to properly monitor, assess and report on the effectiveness of the Program. This includes addressing inappropriate prescribing by establishing a drug use review program. The Ministry also needs to:

- regularly review the drugs and products covered by the Program to ensure that they are cost-effective and consistent with the Program's objectives;
- examine alternatives which would permit the implementation of price reductions and the addition of new drugs or products to the Ontario Drug Benefit Formulary on a more timely basis;
- compare the prices it pays for drugs to those paid by other jurisdictions;
- ensure that limited-use drugs and nutrition products are covered only for individuals who meet established eligibility criteria; and
- improve its inspection function in order to better identify and follow up on incorrect or false billings submitted to the Program.

DETAILED OBSERVATIONS

PERFORMANCE MONITORING AND EVALUATION

DRUG USE REVIEW

The objectives of the Drug Programs Branch include:

- “working with consumers, health care professionals and industry in the planning, delivery and evaluation of drug programs”; and
- “improving prescriber education to reduce inappropriate prescribing.”

We were informed by medical experts that inappropriate prescribing is a significant problem in Ontario. In its 1994 *Practice Atlas*, the Institute for Clinical Evaluative Sciences in Ontario stated that “it is frustrating that at a time when a billion dollars per annum is spent on the Ontario Drug Benefit Formulary [that is, drugs covered by the Ontario Drug Benefit Program], little has been done to study and modify prescribing patterns.” The Institute also surmised that “tens of millions of dollars could be saved annually by simple substitution of well-proven compounds for newer drugs that offer little or no comparative advantage.”

For example, we noted that in its October 1994 bulletin to prescribers, the Drug Quality and Therapeutics Committee raised concerns about the prescribing of drugs used to treat a range of digestive problems. In particular, the Committee noted that the drugs prescribed were more costly than alternative drugs which were clinically similar. Based on the Committee’s estimates, potential savings to the Ontario Drug Benefit (ODB) Program could exceed \$2.5 million per month if the less expensive drugs were prescribed. However, an analysis performed for the Committee indicated that the Committee’s bulletin did not appear to have a significant effect on prescribing patterns.

The Branch has taken a number of steps to encourage appropriate prescribing. For example, it is currently funding an evaluation of two methods of educating prescribers about anti-infective drugs. The Branch has also sponsored the development and distribution of prescribing guidelines for drugs to treat certain infections and uncomplicated hypertension. The purpose of these guidelines is to assist prescribers in determining the most clinically correct and cost-effective drugs to prescribe. Additional guidelines are being developed. However, there is a substantial body of evidence indicating that prescribing guidelines on their own do not alter prescribing behaviour.

One effective method of promoting appropriate prescribing practices is through a drug use review program. Such programs are used in at least two Canadian provinces, the United Kingdom and the United States. The purpose of such programs is to improve patient health by encouraging the prescribing of clinically correct and cost-effective drugs. Essentially, a drug use review program evaluates prescribing practices against prescribing standards on an ongoing basis. To be effective, there must also be the ability to take corrective action when prescribing practices require modification (for example, through educational and/or financial means).

The Branch has undertaken little analysis of drug prescribing patterns. A large amount of information is available through the Health Network system. However, at the time of our audit, although the Health Network was used to review all ODB prescriptions before they were paid,

subsequent analysis of prescribing practices was not being done. Some analysis of prescriptions dispensed for the elderly is done by the Institute for Clinical Evaluative Sciences in Ontario for their annual *Practice Atlas*.

There was a consensus among the medical experts we contacted that implementing a comprehensive drug use review program would more than pay for itself.

In 1991, a provincial drug use review steering committee was formed to implement a drug use review program for Ontario. The Steering Committee included representatives from medicine, pharmacy, academia and the Ministry. By 1992, the Committee had plans in place for a drug use review program; however, at the time of our audit, no province-wide program had been established.

Recommendation:

To promote the appropriate and economical prescribing of drugs, the Ministry should ensure that a drug use review program is established and take appropriate follow-up action where necessary.

Ministry Response:

The Ministry of Health supports drug use reviews and is working with the Ontario Pharmacists' Association toward an agreement to institute drug utilization reviews.

COMPLIANCE WITH LEGISLATION, POLICIES AND PROCEDURES

FORMULARY BENEFITS

The Ontario Drug Benefit Formulary/Comparative Drug Index (the Formulary) lists the drug products which can be obtained by individuals eligible for the Ontario Drug Benefit Program and the prices that the Branch will generally pay pharmacists for these drugs.

Before a drug is listed in the Formulary, drug manufacturers must make a submission to the Branch. Each submission is reviewed by the Drug Quality and Therapeutics Committee. The Committee considers the safety of each drug, how well it works and its cost effectiveness when compared to other drugs which provide similar results. Based on its review, the Committee recommends to the Branch whether the drug should be included in the Formulary.

The Branch prepares an analysis of these recommendations for review by the Ministry's senior management. The final recommendations, along with any other changes to the Formulary (for example, price changes), are forwarded to the Ontario Cabinet for approval. Approved additions and changes are incorporated in the Formulary through a Regulation made under the legislation.

The Ministry has developed pharmacoeconomic guidelines for the economic analysis of pharmaceutical products to assist in determining whether listing a new drug in the Formulary is of economic benefit. For example, the cost of a new drug could be compared to the cost of alternative drugs or techniques which produce similar results. By adopting the guidelines, Ontario became the first Canadian jurisdiction to formally state the standards of cost-benefit analysis expected from drug manufacturers. A Regulation which came into effect in March 1996 requires drug manufacturers to submit such data as part of the process of applying to have new drugs listed in the Formulary.

GENERIC DRUGS

Generic drugs are clinically equivalent versions of already existing brand name drugs whose patent protection has expired. In general, generic drugs are priced lower than their equivalent brand name drugs. Once a generic drug is approved for inclusion in the Formulary, the Branch generally pays only for the lowest-priced equivalent drug product listed. Some generic drugs have resulted in savings of millions of dollars for the Ontario Drug Benefit Program. However, we were informed that generic drugs representing significant savings to the Program were not fast-tracked through the Formulary listing process.

We selected a sample of generic drugs which had been recently added to the Formulary and which had significantly reduced the Branch's expenditures. We noted that the Drug Quality and Therapeutics Committee's review of these drugs generally took two to three months. However, once the drugs had been recommended by the Committee, it took an average of seven and a half additional months for the drugs to be listed in the Formulary. We estimated that, for these drugs alone, this seven-and-a-half-month delay prevented the Branch from realizing approximately \$1.7 million in savings.

In March 1996 the Branch introduced criteria for fast-tracking the Drug Quality and Therapeutics Committee's review of new drugs (including generic drugs) with the potential for significant savings. However, at the time of our audit, the Ministry had no plans to fast-track adding to the Formulary generic drugs with significant cost-saving potential.

Recommendation:

To achieve savings for the Ontario Drug Benefit Program, the Ministry should fast-track the process for adding generic drugs with significant cost-saving potential to the Formulary after they have been recommended for inclusion by the Drug Quality and Therapeutics Committee (DQTC).

Ministry Response:

Part of the Drug Programs Branch's continuous review cycle is to fast-track the addition of products. Upon receipt of the recommendations from the DQTC, the Ministry's expert advisory committee, the Ministry ensures the changes are processed through the required regulatory process in a timely fashion to ensure they come into effect as quickly as possible. The Ministry continues to examine ways to reduce the time involved in receiving, processing and approving submissions, in consultation with the DQTC and the Joint Liaison Committee (JLC), a committee composed of representatives of the Pharmaceutical Manufacturers Association of Canada, the Canadian Drug Manufacturers Association, and the Health Economic Development Office of the Ministry, as well as the Health Insurance and Related Programs Group. The purpose of the JLC is to discuss and make recommendations on areas of common interest among the parties.

PRICING

In our 1991 audit of the Ontario Drug Benefit (ODB) Program, we recommended that, in order to more effectively negotiate drug prices, the Branch should regularly compare the prices it pays for drugs to the prices paid by other provinces. During our current audit, we were informed that only limited comparisons were being made with other provinces.

Seventy-five percent of the brand-name drugs we compared were virtually the same price in Ontario, Quebec and Saskatchewan. However, the other 25% were priced higher in Ontario than in the other two provinces. We estimated that the higher Ontario prices resulted in the Branch spending \$3 million more on these drugs annually than if it had paid the lower price.

Competition in the marketplace may cause the prices of some drugs to be lowered. Therefore, it is important for the Branch to be aware of prices in the marketplace in order to ensure that it benefits from any significant price reductions. The *Ontario Drug Benefit Act* allows the Ministry to adopt regulations requiring the submission of information on the prices charged by manufacturers and wholesalers. In response to our 1991 report, the Ministry stated that "work is already under way on the adoption of regulations requiring regular reports by pharmacies, manufacturers and wholesalers, of prices paid for drugs, and of any rebates, discounts, free goods and other incentives." However, no such regulations are currently in place.

According to the *Ontario Drug Benefit Act*, the Ministry was not to consider the prices paid for drugs by hospitals to determine the price the Ministry would pay for ODB drugs. Specifically, "no account shall be taken of a purchase of a drug for use solely in the treatment of hospital patients and out-patients." Recent changes to the Act have eliminated this restriction.

In that regard, we obtained information from a recent pharmaceutical pricing study which indicated that the Branch generally is paying more than Ontario hospitals for the same drugs despite the fact that the ODB Program represents a much larger portion of the market for these drugs than hospitals.

Recommendation:

To enable it to more effectively negotiate drug prices with drug manufacturers, and thereby better control Drug Benefits Program costs, the Ministry should regularly obtain information on the prices paid for drugs by other provinces and in the Ontario marketplace.

Ministry Response:

The Ministry now does this on a consistent and regular basis through receipt of drug and drug policy analyses and Formularies from the provinces.

PRICE REDUCTIONS

At the time of our audit, drug manufacturers were required to notify the Branch if they lowered the price charged to pharmacists or wholesalers for any drugs listed in the Formulary. Once these price reductions were incorporated in the Formulary, pharmacists were reimbursed based on the revised price.

We selected a sample of Formulary drugs which had undergone significant price reductions during 1995. We noted that an average of six and a half months had elapsed from the time the Branch was notified of these price reductions to the time drug prices were lowered in the Formulary. We estimated that this delay cost the Branch at least \$1 million.

Recommendation:

In order to avoid paying more than is necessary for drugs, the Ministry should ensure that drug manufacturers' price reductions are incorporated in the Formulary on a timely basis.

Ministry Response:

The Drug Programs Branch is continuously examining and implementing methods to improve its process. The current process allows the Ministry to make regular changes to the Formulary, and there is less than four months between Formularies. The net savings for price reductions must take into account costs associated with formulary changes, for example, production costs. If major savings were achievable (that is, significantly more than the cost of production for a Formulary update) the Ministry would initiate a regulatory change at any time in the year.

DELISTING DRUGS FROM THE FORMULARY

We noted that the Branch has neither a regular review process nor general criteria for delisting drugs from the Formulary. Regular reviews with appropriate criteria would be helpful in identifying drugs that have become inappropriate or are no longer cost effective.

Since 1992 the Drug Quality and Therapeutics Committee has reviewed two major categories of drugs—over-the-counter drugs and drugs with extended-release dosages. These reviews resulted in approximately 260 drugs being removed from the Formulary. However, no other major categories of drugs have been reviewed since September 1993.

Recommendation:

To ensure that the Ontario Drug Benefit (ODB) Program covers only drugs which are appropriate and cost effective, the Ministry should:

- develop criteria to determine which Formulary drugs should be retained, deleted or restricted; and
- regularly re-evaluate all drugs listed in the Formulary in accordance with the established criteria.

Ministry Response:

The Drug Quality and Therapeutics Committee (DQTC) has criteria against which new drug submissions are assessed to ensure efficacy and cost effectiveness. Pharmacoeconomic guidelines are now in place and form a major part of each DQTC review. The DQTC is also asked periodically to review drugs listed in the Formulary and make recommendations on ongoing status according to up-to-date expert opinion.

Health Canada's role is to ensure that approved medications are safe and effective and are manufactured to acceptable quality standards. Once approved by Health Canada, the Ministry determines which medicines represent necessary and cost effective additions to the list of therapeutic options available to ODB recipients.

LIMITED-USE DRUGS

Limited-use drugs are drugs that are covered by the ODB Program only when prescribed for specific conditions or circumstances. The Drug Quality and Therapeutics Committee recommends which drugs should be designated as limited use. In making its recommendations, the Committee considers whether there are less costly alternatives available and whether there is a potential for widespread misuse of a drug.

Before an individual receives coverage for a limited-use drug, the prescriber must complete a form indicating why the individual requires the drug. This form is forwarded to the pharmacist along with the prescription. The pharmacist must indicate the reason the drug is being used

when submitting the claim for payment to the Branch. Pharmacists are required to retain this form for two years for potential review by the Branch.

In 1992 the Drug Quality and Therapeutics Committee expressed concern over “the effectiveness of the program in assuring the rational use of these [limited-use] products.” However, in the December 1994 Formulary, the acceptable conditions for dispensing all limited-use drugs were expanded to include the general reason “other.” We were informed that this change was made to facilitate the processing of claims on the Health Network. We subsequently tested the Health Network and found that it would accept any reason for use regardless of whether it related to the drug dispensed.

The Branch conducted a review of limited-use drugs dispensed between January and June 1995. The ODB Program’s expenditures for limited-use drugs during this six month period totalled \$38 million. At the time of our audit, the Branch had not completed its analysis of this information.

Based on the information collected by the Branch, we reviewed drugs which accounted for 85% of limited-use drug expenditures during that six-month period. We found that:

- 13% (\$4.2 million) of the claims had “other” as the reason for use; and
- an additional 21% (\$6.6 million) of the claims had a reason for use that did not apply to the drug dispensed.

Recommendations:

To ensure that the cost to the Ontario Drug Benefit (ODB) Program is minimized, the Ministry should pay for limited-use drugs only if they are prescribed for one of the ODB Program’s specified conditions or circumstances.

In addition, the Health Network should be modified to eliminate “other” as an acceptable reason for use and reject claims for conditions and circumstances not covered.

Ministry Response:

The May 27, 1996 issue of the Formulary - Book 35 included a significant change to reimbursement of limited-use products. The Ministry will only reimburse limited-use drugs if the specified limited-use criteria are met. Limited-use forms must be completed by the prescriber and be presented to the pharmacist indicating the reason for use of the limited-use drug. The reason for use must fit the specified criteria. The “other” criteria code no longer exists and will not be accepted. Network changes will result in rejection of “other” codes.

Additional Network changes are being developed for introduction in late fall 1996 which will allow the Ministry to apply specific eligibility criteria including: one drug or a group/category of drugs; one or more prescribers; and specified beneficiaries. The systems change will create a more effective mechanism for managing drug benefit payments.

NUTRITION PRODUCTS

The Branch will pay for certain prescribed nutrition products if an individual eligible for the ODB Program has specific medical reasons for requiring a formulated liquid diet or disease-specific nutrition product. In these cases, the Branch will pay the pharmacist up to a maximum established amount, plus a dispensing fee. The Nutrition Products portion of the Formulary states, "patients tolerating solid food and requiring supplementation in addition to food are not eligible for coverage." For example, the ODB Program does not fund nutrition products prescribed for weight loss, food allergies or meal replacements. For the 1994/95 fiscal year, ODB expenditures for nutrition products totalled approximately \$11.1 million.

COVERAGE

One of the Branch's objectives is "achieving equitable protection for Ontarians from unaffordable prescription drug costs." Unlike prescription drugs, nutrition products may not be an additional cost for many individuals since they are primarily a substitute for other food and are available without prescription. Therefore, we question whether paying for nutrition products fits within the objectives of the Branch.

Recommendation:

In order to ensure that expenditures for the Ontario Drug Benefit Program are consistent with branch objectives and represent the best use of limited public funds, the Ministry should review whether nutrition products should be covered by the Ontario Drug Benefit Program.

Ministry Response:

The Ministry is in agreement that a review of the management of the nutrition products program should be undertaken and will do so. The review will include: re-assessment of the administration and funding of nutrition products within the Branch and the objectives will be to revisit the criteria which govern reimbursement and to explore means through which cost reductions could be realized.

ELIGIBILITY

Before an individual receives a nutrition product through the ODB Program, the prescriber must complete a form which indicates the condition for which the product is needed. This form is forwarded to the pharmacist, who is required to retain it for two years.

In September 1993 the Branch indicated that it was developing a process to monitor compliance with eligibility criteria for nutrition products. However, at the time of our audit, such monitoring was still lacking.

In October 1995 the Drug Quality and Therapeutics Committee expressed concerns about the potential misuse of nutrition products as meal replacements, and suggested that a study be

conducted to determine if these products were being appropriately prescribed. At the time of our audit no study had been conducted.

Based on the information available at the Branch, we were unable to determine whether nutrition products were being dispensed only to eligible individuals who met the criteria for requiring the products. We noted that expenditures for one nutrition product that could be used as a meal replacement were \$575,000 for the month of September 1995 alone.

Recommendation:

To ensure that only eligible individuals who meet the specified medical requirements receive nutrition products through the Ontario Drug Benefit Program, the Ministry should monitor the claims for these products and take corrective action where necessary.

Ministry Response:

Use of nutrition products is subject to audit by the Branch's audit staff. The Branch now conducts regular electronic audits and risk analyses, following-up with on-site inspections and spot checks as indicated. Limited-Use/Nutrition Forms, formerly the Non Formulary Benefit Forms, must be completed/signed and retained in the pharmacy. Auditors are able to verify if the criteria as listed in Section IX of the Formulary have been applied. If the form is not available or the criteria have been mistakenly applied, monies relating to inappropriate claims are retrieved from the pharmacy.

PRICING

The Drug Quality and Therapeutics Committee indicated that there are no identifiable therapeutic differences among the different brands of nutrition products listed in six different categories. For these six categories, the maximum amount the Branch will pay is the median (middle) price of the nutrition products listed in the category. If an individual uses a product costing less than the median price, the Branch pays the lower price. If an individual uses a product costing more than the median, the individual pays the difference.

For the six categories of therapeutically equivalent nutrition products, we estimated that the Branch could save approximately \$2.3 million annually if it paid the lowest price rather than the median price.

Recommendation:

To lower costs to the Ontario Drug Benefit Program, the Ministry should investigate the feasibility of paying the lowest price in each category of nutrition products where there are no identifiable therapeutic differences among different brands.

Ministry Response:

The Ministry agrees and will review how this could be accomplished.

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DIABETIC TESTING AGENTS

Diabetic testing agents are products used by diabetics to test the sugar levels in their blood and urine. If certain diabetic testing agents are prescribed for individuals eligible for the ODB Program, the Branch will pay the pharmacist up to a maximum established amount, plus a dispensing fee. For the 1994/1995 fiscal year, ODB Program expenditures for diabetic testing agents totalled \$13 million.

For blood glucose test strips, which represent the largest expenditure for diabetic testing agents, the maximum amount the Branch will pay is the median price of the test strips listed in the category. If an individual uses a product costing less than the median price, the Branch pays the lower price. If an individual uses a product costing more than the median, the individual pays the difference.

In 1994 the Drug Quality and Therapeutics Committee reviewed blood glucose test strips and was unable to find evidence which showed a difference in health outcomes among the different brands. Although different testing machines require different test strips, we question why the Branch is paying for blood glucose test strips costing more than the lowest priced product in the blood glucose test strip category. We estimated that the Branch could save approximately \$3.3 million annually if it paid the lowest, rather than the median, price in that category.

Recommendation:

In order to decrease costs to the Ontario Drug Benefit Program, the Ministry should investigate the feasibility of reimbursing blood glucose test strips at the lowest price in that category.

Ministry Response:

The Ministry agrees that reducing the cost of reimbursements for blood glucose test strips should be explored. The Ministry also proposes to re-assess the continued management of this non-drug program by the Drug Programs Branch. In order to reduce costs, a variety of initiatives will be explored.

CLAIMS PROCESSING AND PAYMENTS

The Health Network is a computer system that links the Ministry with pharmacies throughout Ontario. It is operated by a service bureau and provides on-line information to pharmacists and enables the on-line submission and adjudication of claims.

We reviewed the operations of the Health Network and found that claims submitted to the Ontario Drug Benefit Program were generally processed accurately and on a timely basis.

INSPECTIONS

The Branch has four inspectors responsible for inspecting approximately 2,600 pharmacies and other facilities in Ontario. These inspections include ensuring that claims made by pharmacists are valid. The Branch also performs in-depth inspections when fraudulent billings are suspected. During the 1994/95 fiscal year, the Branch performed approximately 170 inspections and recovered \$128,000 from pharmacies. Legislation passed during our audit permits the Minister of Health to suspend the right of a pharmacy to receive payments from the Ministry if the pharmacy is suspected of wrongdoing.

SCHEDULING OF INSPECTIONS

The Branch had no formal policies or procedures for identifying and prioritizing the pharmacies to be inspected. In addition, it had no annual plan for deciding which pharmacies would be inspected during the year. We were informed that the inspectors are responsible for selecting the pharmacies they will inspect. Management does not review or approve these selections.

In our 1991 report on the ODB Program, we noted that information on inspections was not aggregated or analyzed. Such information would assist in determining priorities for inspection. In addition, the Branch did not know the inspection coverage being achieved or the outcomes of inspections. The Ministry responded that the shortcoming of not having specific aggregate statistics would be overcome "by the implementation of a database management system for which a prototype has already been developed."

Currently, there is no listing available of when a pharmacy was last inspected or the results of that inspection. We noted that while the response to the request for proposal for the Health Network indicated that the Network could support the scheduling of inspections, this had not been implemented.

The *Ontario Drug Benefit Act* requires pharmacies to retain prescription drug records for two years. Therefore, any transactions that are more than two years old are not subject to inspection. Based on our calculations, however, pharmacies are only inspected on average once every 11 years.

Recommendation:

To ensure that pharmacies are inspected on a timely basis, the Ministry should implement a system for prioritizing and scheduling inspections, including an annual inspection plan approved by management.

Ministry Response:

The Ministry is developing a Pharmaceutical Audit system as part of an enhancement of the Health Network. This system, expected to be implemented in March 1997, will use "key criteria" to identify agencies to be audited. As well as assisting in setting priorities and scheduling inspections, it will maintain a record of when a pharmacy was last inspected and the outcome of that inspection.

An annual inspection plan is being developed and will be evaluated. It is also important to retain the flexibility to inspect suspect billings as required, following a complaint received regarding billing practices or as identified by the Pharmaceutical Audit system.

There are a limited number of inspectors in the Branch who carry out computer reviews as well as on-site inspections. The Branch continues to develop means to make the most efficient and effective use of its technical and human resources.

CONDUCTING INSPECTIONS

The Branch has no formal policies or procedures for conducting inspections. We reviewed a sample of inspections conducted during the last three years and noted that there was little documentation of the inspection procedures performed.

Procedures addressing the work to be performed, recovery of payments for incorrectly billed claims, subsequent follow-ups and referrals for further investigation are needed to ensure inspections are properly conducted and that follow-up action is taken when necessary. For example, we found that inspectors did not consistently recommend the recovery of funds when they found amounts incorrectly billed to the Branch.

Recommendation:

To ensure that inspections are properly completed and that recoveries of incorrectly billed claims are made when appropriate, the Ministry should prepare and implement formal policies and procedures for conducting inspections.

Ministry Response:

The current audit software prompts the inspector to perform a set of standard tests with each inspection. The tests assist the inspector in identifying claims that have been paid incorrectly. In addition to other tests, they are being incorporated into the Pharmaceutical Audit system that is under development.

A draft inspection policy and procedures manual is now being reviewed and finalized.

VERBAL PRESCRIPTIONS

Prescriptions can either be written or issued verbally to pharmacists. At the time of our 1991 report on the ODB Program, approximately 70% of all prescriptions were verbal. We were informed that a more recent estimate of verbal prescriptions was not available.

In our 1991 audit report we noted that the Branch did not confirm verbal prescriptions. At that time, the Ministry responded that “the Auditor correctly identifies verbal prescriptions as a risk area, vulnerable to false billing.” The Ministry also stated that the feasibility and opportunity for using verification letters to confirm a prescription with the prescriber would be investigated, taking into account provisions of the *Freedom of Information and Protection of Privacy Act*.

The Branch has developed verification letters to confirm dispensers’ claims with patients and prescribers and has used these letters to verify the billings of pharmacies where problems were suspected. However, verification letters have not been used to specifically address the need to routinely confirm verbal prescriptions. Therefore, any false billings submitted to the Branch may have gone undetected.

We noted that at least one province and one private insurance agency do confirm that prescriptions billed by pharmacists were actually received by the patient. While the Ontario College of Pharmacists does not review verbal prescriptions on a regular basis, we were informed that third party payers can confirm prescriptions with patients and prescribers.

We were informed that the Ministry is currently designing changes to the Health Network to implement a random verification letter process.

Recommendation:

In order to identify potentially false billings, the Ministry should implement a procedure to verify, on a test basis, verbal prescriptions with patients and/or prescribers.

Ministry Response:

The Ontario College of Pharmacists holds verbal prescriptions to be a legitimate and recognized way of doing business and to be within the scope of the practice of the profession. All pharmacists are subject to the standards set by the College.

Samples of verbal prescriptions are verified by the Branch’s inspectors, through physician and patient verification letters, when false claims are suspected. However, samples are not verified during routine audits.

An enhancement planned for the Pharmaceutical Audit system will allow the selection of random claims for verification.

MANAGEMENT OF RESOURCES

EVALUATION OF THE HEALTH NETWORK

Documentation we reviewed indicated that the Health Network was created to support the implementation of significant new and innovative drug policies. Potential benefits of the Health Network were to include drug use review, more cost-effective claims processing, and detection of overpayments and false billings.

The Branch has not evaluated the cost effectiveness of the Health Network to determine whether its intended benefits have been realized. This evaluation needs to be conducted promptly since the Branch's four-year contract with the service bureau ends in November 1997.

Recommendation:

To be in a position to make an appropriately informed decision about the future of the Health Network system, the Ministry should assess whether the intended benefits of the Health Network have been realized.

Ministry Response:

In November 1996 the Ministry of Health will review the current contract for Network support services. A full evaluation and performance review of the Network will be undertaken before a decision is made to extend the contract.

While a formal evaluation has not yet been carried out, daily experience with the Network shows considerable benefits have been realized in the expeditious and accurate processing of claims, and areas such as warning and information messages.

TRILLIUM DRUG PROGRAM

In November 1994, the government announced that it would develop a program to assist individuals and families with unmanageable prescription drug expenses. On April 1, 1995, the Trillium Drug Program was established to provide access to the Ontario Drug Benefit Program for families and eligible individuals whose drug costs are a significant portion of their incomes. To qualify for the Trillium Drug Program, each applicant must first incur drug costs in excess of a deductible amount which is based on income. Recipients must re-qualify each year. It was estimated that the Trillium Drug Program would cost approximately \$75 million annually and benefit up to 240,000 individuals.

VERIFICATION OF INCOME

In order to verify applicants' incomes, the Trillium Drug Program generally requires applicants to submit a copy of their Notices of Assessment from Revenue Canada. According to the

Branch, this information is not provided by approximately 20% of the applicants. In those cases applications are approved based on other documentation, such as a letter from an employer or a T4 slip. Since these documents may not indicate applicants' incomes from all sources, the Branch had planned to verify these applicants' incomes with Revenue Canada. At the time of our audit, no income verification with Revenue Canada had been completed.

We also noted that the Branch did not have procedures in place for the recovery of incorrect payments. Additionally, there are no legislative sanctions, such as the ability to collect interest on overpayments, other than prosecuting a person who knowingly furnishes false or incomplete information.

Recommendation:

To ensure that only eligible persons benefit from the Trillium Drug Program, the Ministry should:

- verify selected applicants' incomes with Revenue Canada where necessary; and
- implement procedures to recover funds when appropriate.

Ministry Response:

The Ministry currently verifies applicants' incomes by requiring that a copy of Revenue Canada's "Notice of Assessment" for the previous year's income tax be submitted with the Trillium application. In cases where applicants do not file an income tax return or do not have their Notice of Assessment, other forms of proof of income (for example, T4 slips, Workers' Compensation Board slips, record of employment form showing income) are considered. However, when proof of income is by means other than a Notice of Assessment, the file is flagged for audit.

A process is currently being developed for audits and recovery of funds, where appropriate.

SPECIAL DRUGS PROGRAM

The Special Drugs Program provides funding to cover the costs of certain drugs used in the treatment of specific conditions, such as AZT for individuals who are HIV positive. No new drugs have been added to this Program since February 1993 in anticipation of the April 1995 introduction of the Trillium Drug Program, which covers people with high drug costs relative to their incomes. To be eligible for coverage under the Special Drugs Program, an individual must be an Ontario resident with valid Ontario Health Insurance, must meet clinical criteria and must have one of the conditions covered by the Program. Eligible individuals receive their drugs free of charge from designated facilities, generally hospital pharmacies. Expenditures for the Special Drugs Program totalled \$74 million in the 1995/96 fiscal year.

One of the objectives of the Branch is to provide equitable protection for Ontarians from unaffordable prescription drug costs. However, unlike the Trillium Drug Program, the Special Drugs Program does not have a deductible.

Recommendation:

Since the Trillium Drug Program covers people with high drug costs relative to their incomes, the Ministry should consider whether the Special Drugs Program is needed in its present form and, if so, whether it is consistent with the Ontario Drug Benefit Program's objective of providing equitable protection.

Ministry Response:

The Ministry agrees that consideration should be given to the consistency of the application of the objective of equitable protection. The Branch will be reviewing the three programs, Ontario Drug Benefit, Trillium and the Special Drugs Program, to look at the possibility of redesigning the various components to ensure consistency and compatibility.

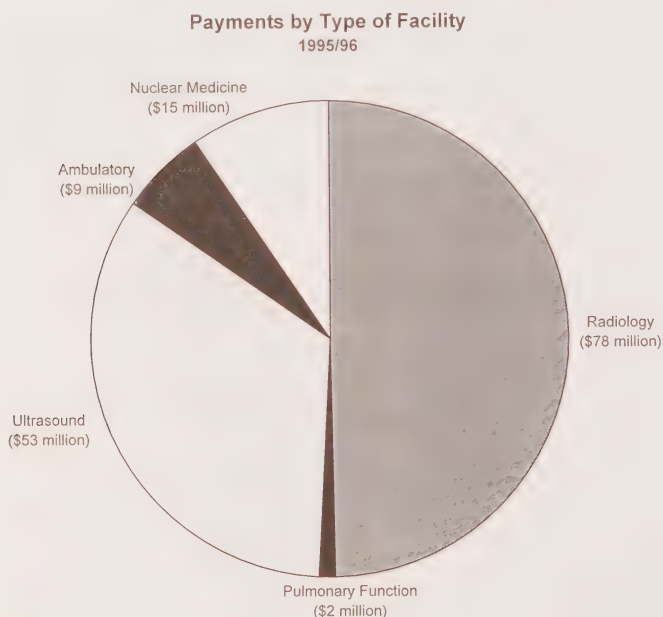
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Independent Health Facilities

The *Independent Health Facilities Act* specifies the licensing, funding and quality assurance requirements of facilities providing medical procedures traditionally performed in public hospitals. These facilities function in a manner similar to hospital out-patient clinics.

The Act was originally intended to license ambulatory surgical centres performing procedures such as cataract surgery and abortions. However, subsequent amendments have broadened its licensing provisions to include facilities offering diagnostic services such as x-rays and ultrasound. The term of a licence generally cannot exceed five years.

At the time of our audit, 967 diagnostic and 19 ambulatory (surgical) facilities were licensed under the Act. For the 1995/96 fiscal year, technical fee payments to diagnostic and ambulatory facilities were approximately \$148 million and \$9 million, respectively. The payments by type of facility are shown on the following chart.



Source: Ministry of Health

In addition to the technical fees paid to the facilities, physicians receive payment for their professional services for interpreting the results of the diagnostic procedure.

The Act requires the Minister of Health to appoint a Director of Independent Health Facilities to administer the provisions of the legislation. This responsibility has been assigned to the Director of the Provider Services Branch.

The Act also provides the authority for conducting inspections of licensed independent health facilities and for assessing the quality of the services delivered. The College of Physicians and Surgeons of Ontario has been assigned the responsibility for developing standards of practice and administering the quality assurance and assessment program. For the 1995/96 fiscal year, the Ministry paid the College approximately \$721,000 for this function. In addition to the College's assessors, the Ministry may appoint inspectors to inspect licensed facilities for compliance with the Act and the terms and conditions of their licences.

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OBJECTIVES AND SCOPE

The objectives of our audit were to assess whether the Ministry had adequate procedures in place to:

- ensure compliance with the legislative requirements for the licensing, funding and monitoring of independent health facilities; and
- measure and report on the effectiveness of the Independent Health Facilities program.

In conducting our audit, we reviewed and analyzed the information available at the Ministry's Provider Services Branch, as it related to independent health facilities. We also reviewed and, where warranted, relied upon any relevant work of the Ministry's Audit Branch. Amendments to the *Independent Health Facilities Act* were passed in January 1996. These amendments had not been implemented before our audit work was completed.

OVERALL AUDIT OBSERVATIONS

In general, the Ministry had adequate procedures in place to ensure compliance with the legislative requirements for the licensing and funding of independent health facilities. While the Ministry has a system to monitor and evaluate the quality of standards of practice in independent health facilities, a number of areas require improvement. The Ministry has not ensured that all facilities are assessed prior to renewing their licences. Additionally, the evaluation of facilities based on assessments by the College of Physicians and Surgeons and the follow-up of identified problems require improvement. Procedures to measure the effectiveness of the program have yet to be developed.

The Branch's business plan, finalized in January 1996, recognizes a number of the issues we have identified, including the need for ongoing evaluation of the program.

DETAILED AUDIT OBSERVATIONS

FACILITY FUNDING

The *Health Insurance Act*'s Schedule of Benefits prescribes the professional and technical fees payable to medical practitioners for providing insured services to their patients.

Historically, most technical services were performed in a hospital. However, the development of new technology has allowed many of these services to be provided in facilities outside a hospital.

The *Independent Health Facilities Act* requires facilities performing certain technical procedures to be licensed in order to receive payment from the Ministry. These procedures, along with the fee payable, are included in the Schedule of Facility Fees established under the Act.

Diagnostic facilities are paid on a fee-for-service basis for the technical component of services. The technical fee, which is also referred to as a facility fee, reimburses a facility operator for the cost of premises, equipment, supplies and personnel used to carry out the procedure. A professional fee represents the payment to a medical practitioner for interpreting the results of a diagnostic procedure.

Ambulatory facilities, on the other hand, generally receive payment for technical fees based upon negotiated global or line-by-line budgets. The professional component is independently billed to the Ministry on a fee-for-service basis by the physician performing the service.

PAYMENT PROCESS

The majority of insured services performed in independent health facilities result from a referral by a physician who has conducted a medical examination of a patient. The facility performs the requested tests and forwards the results to the referring physician. The facility then submits its claim for payment to the Ministry. These diagnostic claims are processed by the Ministry's Claims Processing System and are subject to its system edits and medical rules.

Ambulatory facilities receive monthly payments based on their annual budgets. Financial and operational information reported quarterly and annually is compared to the negotiated budget, actual funding and established service levels. Any overpayments are to be recovered by the Ministry.

We reviewed a sample of payments to ensure that they were only made to licensed facilities for licensed facility fees. Our review did not disclose any significant problems in the payment process for either ambulatory or diagnostic facilities.

REASONABLENESS OF FACILITY FEES

In 1991 the Ministry and the Ontario Medical Association (OMA) entered into a six-year agreement. The agreement established thresholds for fee-for-service billings by individual physicians. Once the thresholds are exceeded, physician billings are paid at a reduced rate. However, all technical fees, including facility fees payable under the *Independent Health Facilities Act*, are exempt from the application of these thresholds.

Facility fees are set by the Ministry after receiving recommendations from the OMA. During our audit, we noted that the Provider Services Branch was reviewing facility fees and the feasibility of individual facility thresholds. However, the Branch had not yet specified which operating costs should be included in setting facility fees, nor had it identified the actual operating costs that the operators had incurred in providing the technical services.

For the 1994 calendar year the volume of services provided by licensed facilities varied greatly. For example, 300 facilities each provided less than 1,000 services whereas 12 facilities each provided in excess of 30,000 services. The relationship between the volume of services provided and the cost of providing the services has not been studied. Without such information, it will be difficult for the Ministry to establish thresholds that fairly reflect a facility's cost of performing services.

The Ministry has not studied the operating costs of facilities or the economies of scale for facility services. In order to establish fair thresholds, the Ministry needs a better understanding of the costs that are covered by the existing fees. Establishing inappropriate thresholds could have a negative impact on the services that facilities provide.

Recommendation:

To ensure the reasonableness of facility fees and any proposed thresholds, the Ministry should study the relationship between the volume of services provided and the costs of providing those services.

Ministry Response:

The Ministry agrees that the relationship between the volume and costs of services should be reviewed and had included this in the three-year business plan of the Provider Services Branch.

Staff have already met with one group of stakeholders (Ontario Association of Radiologists) who presented a proposal to carry out such a study for diagnostic imaging. The Ministry intends to establish an informal advisory group of stakeholders to review the setting of fees and the potential mechanisms for volume discounts.

Also, the Ministry has identified in its "Physicians' Action Plan" the need to look at the potential for "volume discounts" to recognize economies of scale in the provision of technical services. Staff in the Alternative Funding Unit and Institutional Health have been working to develop a protocol to be used to examine the appropriateness of the fees and the applicability of volume discounts. This initiative is scheduled for implementation in 1997/98.

QUALITY ASSESSMENTS AND INSPECTIONS

OVERVIEW

The College of Physicians and Surgeons is responsible for conducting assessments of the quality of services provided by licensed facilities. Areas covered by assessments range from policies on equipment sterilization to the qualifications of staff in the facilities. The facilities to be assessed are selected by the Director of the Provider Services Branch at the beginning of each fiscal year.

The College appoints medically and technically trained assessors to conduct the assessments, and forwards completed assessments to the Director. After reviewing the assessment report the Director may request additional information on the College's recommendations or authorize representatives from the College to meet with the facility's management to discuss the recommendations.

Where there is risk to patient health and safety, the Director will suspend a facility's licence. In such instances, Ministry staff attend the meeting between the facility and the College. When the facility has provided the College with sufficient documentation to demonstrate that the recommendations have been implemented, the College informs the Director who may then reinstate the facility's licence.

In addition to the College's quality assessors, inspectors may be appointed by both the Ministry and the College. Ministry inspectors may inspect a facility to ensure that it complies with all the provisions of the *Independent Health Facilities Act* and the terms and conditions of its licence. Inspectors may also be appointed by the College when the Director has reasonable grounds to believe that unlicensed facilities are charging the public a facility fee for insured services.

QUALITY ASSESSMENT PROCESS

Since the Ministry has limited resources to perform assessments, effective risk analysis is important to ensure that high risk facilities are identified and assessed on a timely basis. Each year the Ministry prepares an assessment plan using various risk factors, including characteristics of their operation, to identify facilities with a higher potential for problems.

Since 1991 significant problems have been identified in over 25% of all completed assessments. The problems included poor record-keeping, sub-optimal equipment, unqualified staff and major scanning deficiencies in a technologist's work.

We reviewed the quality assessment process and a sample of the assessments performed to date, and found the following.

- Quality assessments had not been performed on two-thirds of the 986 facilities licensed under the Act.
- Only 47 of the 336 facilities that had their licences renewed had been assessed.
- With a present completion rate of approximately 130 assessments per year, many more facilities will not be assessed before their licences expire.
- Although the *Independent Health Facilities Act* provides for pre-licensing inspections, few facilities were inspected prior to receiving their original licence.

In addition, our review indicated that the assessors from the College of Physicians and Surgeons had reported significant problems in 25% of the 47 facilities that had their licences renewed. In two instances the facilities' licences were subsequently suspended by the Director pending corrective action. These results demonstrate the importance of having facilities inspected before their licences are renewed.

Recommendation:

To ensure that facilities provide quality health care, the Ministry should develop a plan to assess all facilities at least once before their licences are renewed. The results of these assessments would assist the Ministry in better prioritizing future assessments by identifying higher risk facilities.

Ministry Response:

It has always been the Ministry's intention to assess each facility prior to renewal of licences. In the initial stages of program development this has not been possible due to the number of facilities and the need to develop practice parameters and protocol.

The current agreement with the College of Physicians and Surgeons of Ontario calls for a minimum of 150 assessments to be carried out in the 1996/97 fiscal year. In the 1995/96 fiscal year, 133 assessments were conducted.

The Ministry has provided funding to the College to gradually increase the number of annual assessments so that each facility is assessed at least once during its licence term.

Annual assessments of 200 per year are required to ensure one assessment during each five-year licence term. With the cooperation of the College, the Ministry would like to achieve this target in the 1997/98 fiscal year.

NON-LICENSED TECHNICAL SERVICES

When the *Independent Health Facilities Act* was introduced, many insured services having a technical component were not included in the list of services covered by the Act. Both the professional and technical components of these services can be billed without a facility licence and paid through the Ontario Health Insurance Plan (OHIP).

At the time of our audit, the *Health Insurance Act's* Schedule of Benefits contained 65 technical procedures which were not included under the *Independent Health Facilities Act*. Some of these technical procedures are similar in nature to those currently licensed under the *Independent Health Facilities Act*. For example, some ultrasound procedures are licensed while others are not. The practice of only licensing operators who bill for certain technical services may confuse patients as to which facilities are subject to quality assessments under the Act. We

found that the rationale for the ongoing exclusion of these procedures from the legislation was not evident.

We also noted that the College, in a 1995 submission to the Ministry, stated that it “is concerned with the proliferation of unregulated out-of-hospital facilities providing insured and uninsured medical, surgical and diagnostic services to patients.”

In the 1994/95 fiscal year physicians provided 14.7 million services and billed OHIP \$105.7 million in technical fees for procedures not requiring a licence under the *Independent Health Facilities Act*. This represents a 14% increase in the dollar value of these services from 1991/92. Some of these fees have increased significantly. For example, technical fees relating to Sleep Studies have increased by 135% and Echocardiography by 23%. As the demand for these procedures increases, the importance of monitoring the quality of these services using appropriate Clinical Practice Parameters also increases. In comparison, from 1991/92 to 1994/95, technical fees paid to facilities licensed under the *Independent Health Facilities Act* increased by only 2%.

Recommendation:

To ensure that the quality of care provided to patients is adequate, the Ministry should develop specific criteria for determining which technical services and procedures should be licensed under the *Independent Health Facilities Act* (IHFA). These criteria should be used to review all technical services currently provided by physicians to determine which procedures should be subject to the quality assurance program of the College of Physicians and Surgeons.

Ministry Response:

The Provider Services Branch is developing criteria which can be used to evaluate which services should be included under the IHFA. The intent is to make recommendations on IHFA expansion to senior ministry management within the fiscal year.

The number of services that the Act could theoretically cover are so substantial that it is necessary to rigorously prioritize the areas where expansion should take place. These areas of consideration include: potential areas of risk to patients, areas of rapid utilization or cost expansion, and areas of rapid change in technology or delivery methods.

The IHFA already affords a level of quality assurance substantially above that provided for in other provinces and was intended to do so in order to allow for the efficient and safe movement of services outside of hospitals due to technological advances. As such, the program is relatively expensive at a cost of \$3,500 per assessment. The quality of care for patients has already been enhanced through provisions in the Regulated Health Professions Act and the Medicine Act which require that the College develop a quality assurance program for the profession. This program includes physician peer assessments, reviews and enhancement programs which could include continuing education components. In many instances, this level of quality assurance will likely be all that is needed for the particular service.

In December 1995 changes were proposed to the IHFA which would allow the expansion of the Act to services currently not covered. These changes came into effect with the proclamation of specific sections of the Savings and Restructuring Act on April 1, 1996. In preparation for this potential expansion, the Ministry has established a joint committee with the College to develop the criteria for expansion. This committee has already met several times since proclamation. The criteria developed by this committee will be applied to any new services which are considered for potential expansion.

EVALUATION OF ASSESSMENT RESULTS

ASSESSMENT METHODOLOGY

The Ministry has delegated the responsibility for conducting quality assessments of facilities to the College of Physicians and Surgeons. The College provides the assessors with guidelines for performing assessments.

In reviewing the guidelines, we noted that the sample selection criteria were vague. The guidelines recommended that the assessor review a sample of 10% of the medical procedures performed at the facility. However, the guidelines did not take into consideration such factors as the time period to be tested, multiple medical specialties or the size of the facility.

In practice, assessments were conducted in one day with assessors reviewing less than 30 items, regardless of the size of the facility's operations. For example, in a facility performing 3300 tests annually, only 7 were examined, while in a facility performing 80 tests annually, 27 were examined. While certain variations in sample size may be justified, the rationale used to determine the sample sizes was not evident.

The lack of clear sampling guidelines increases the risk of not detecting potentially serious health and safety issues.

Recommendation:

To minimize the risk of not detecting potentially serious health and safety issues, the Ministry should ensure that the sampling guidelines of the College of Physicians and Surgeons consider the time period covered by the assessment, the volume of services provided by the facility and the number of specialties practiced at the facility. The justification for not following these guidelines should be documented.

Ministry Response:

The Ministry agrees with this recommendation and will request the College to review and refine the sampling guidelines.

CLARITY OF CONCLUSIONS

The *Independent Health Facilities Act* requires services to be provided in accordance with generally accepted professional standards. These standards, known as Clinical Practice Parameters and Facility Standards, have been developed by the College of Physicians and Surgeons and representatives of independent health facilities. Assessment reports usually conclude on whether the quality of the services provided in a facility is in accordance with the Clinical Practice Parameters and Facility Standards.

However, in our review we noted that assessment conclusions were not always clearly worded. Some conclusions failed to explicitly state whether the Standards had or had not been met. For example, several assessment reports concluded that the overall quality of services provided “may be in keeping” with the Standards.

Since the Director relies upon assessment results to determine whether to initiate formal action against a facility, assessors’ conclusions need to clearly state whether the facility has met the Standards.

Recommendation:

To enable the Ministry to take appropriate corrective action, the Ministry should work with the College of Physicians and Surgeons to ensure assessment reports contain consistently clear conclusions on whether the Clinical Practice Parameters and Facility Standards have been met.

Ministry Response:

The Ministry agrees that there is a need to ensure that the assessment reports contain consistently clear conclusions. Because of patient safety, legal and other contentious issues, it is imperative that the reports, as well as the letter from the Registrar of the College, contain no ambiguities or inconsistencies but instead present clear and specific details. The Ministry has made its concerns clearly known to the College and is working with the College to help improve the quality and content of reports.

It was agreed that a standard set of prototype letters be developed with input from legal counsel that can be used for the Registrar's letter to the Director of the Provider Services Branch. A joint ministry/college working group has been formed and will develop a set of prototype letters to increase the consistency and specificity of assessment reports and the Registrar's letter and held its first meeting in June 1996.

ASSESSMENT TRACKING SYSTEMS

The Branch maintains an assessment database system which contains a wide range of information, including text from the assessment report, the facility's status (active or suspended) and actions taken by the Ministry and the College of Physicians and Surgeons.

However, the system was not used to track the timely completion of outstanding assessment reports. Our review of reports generated from the database also revealed numerous errors and a lack of timeliness in inputting new assessment reports. We found that assessments were not inputted, dates were incorrect, action codes were used inconsistently and inaccurately, and status codes (for example, active or suspended licence) were not updated on a timely basis.

In addition to the database problems, we noted that the Branch's manual filing system did not facilitate a review of a facility's history. While facility information was sometimes filed under different billing numbers due to incorporation or other changes, no procedure existed to ensure that information associated with old billing numbers was considered when reviewing a "new" facility's history. Although the licence number remains the same irrespective of name changes, it was not used to track facility information.

Recommendation:

Management requires accurate and consistent information on assessments in order to monitor the historical performance of facilities and operators and to plan future assessments. Accordingly, the Ministry should take steps to:

- verify the integrity of data in the assessment database;
- review the feasibility of filing all assessment information by licence number; and
- develop a system for tracking the completion of facility assessments.

Ministry Response:

The Ministry agrees with these recommendations.

A review of the accuracy of the system information is currently underway including error correction. A number of other actions will be taken to address these problems, including review of data entry/integrity and records and file management procedures. As well, the feasibility of a joint tracking system with the College of Physicians and Surgeons, to optimize tracking and completion processes, will be investigated along with potential changes to the existing licensing database.

TIMELINESS OF ASSESSMENTS

ASSESSMENT REPORTS AND FACILITY MEETINGS

Independent Health Facility program objectives require that staff of the facility and the College of Physicians and Surgeons meet within two months, or as soon as practicable, after an assessment has been completed to discuss the recommendations in the assessment report.

From our sample of facility assessment reports containing significant concerns, we noted that the majority of meetings occurred four to six months after the assessment date. In one case a meeting did not occur until 13 months after the assessment. The delays were primarily because, on average, the Ministry received reports four months after the assessment date. In our opinion, this time delay is excessive given the fact that a standard assessment, including the preparation of the report, is completed in two days.

Recommendation:

To ensure the timely implementation of assessment recommendations, the Ministry should work with the College of Physicians and Surgeons to establish timeframes for submitting assessment reports and enforce timeframes for meeting with facility staff.

Ministry Response:

The Ministry agrees with this recommendation.

The College and the Ministry have agreed that, in instances where an emergency suspension is warranted, the College will fax a letter of notice to the Ministry immediately after the facility assessment and prior to the submission of the written report. The Ministry will be working with the College to continue to improve the process including development of timeframes for report submission and meetings with facility operators. These timeframes will vary depending upon the severity of concerns in the assessment reports.

SUSPENSIONS AND REASSESSMENTS

The Director has the authority to suspend a facility's operations on an emergency basis if there are reasonable grounds to believe that the facility is being, or will be, operated in a manner that poses an immediate threat to the health and safety of any person. We noted that suspensions were usually for a limited duration and have seldom led to a licence being revoked.

Generally, any actions taken by the Director were based on the results of an assessment report from the College of Physicians and Surgeons. Once the Director has suspended a facility, the College will meet with the operator to determine what steps the facility intends to take to rectify the problems identified. Based on the results of the meeting, and a review of the written assurances from the facility, the College will inform the Director that the requirements of the College have been met and recommend lifting the suspension. However, these assurances are not confirmed until the College reassesses the facility.

The Ministry has no documented policies indicating when unfavourable assessments should be followed up or what form the follow-up should take. We noted that in 63% of the reassessments performed, significant problems continued to be identified.

Since suspended facilities have the most serious health and safety concerns, following up their assessment recommendations should be a priority. However, we calculated an average of four months between the time when a suspension was lifted and the date a reassessment was requested. Moreover, for facilities with unfavourable assessments whose licences were not suspended, an average of 12 months passed between the date the assessment was received by the Ministry and the date a request for reassessment was made.

Recommendation:

Given the risk associated with facilities that have received poor assessment ratings, reassessments should be carried out on a timely basis.

Ministry Response:

The Ministry agrees with this recommendation and has already instituted improved methods for following up on assessment reports and reassessments. For all problem assessments, the Ministry has set a target of a four-day response. For routine assessments the target time for a response is within one week.

Patient risk is minimized by the fact that when an assessment identifies a risk to patient health and safety, the facility cannot operate until the problem has been corrected to the satisfaction of the College of Physicians and Surgeons and the Ministry. Significant activity occurs between the assessment date and the date of reassessment. In the case of suspensions, the facility operator attends one or more meetings with the College and the Ministry and continues to work with the College to ensure deficiencies are corrected. Where the deficiency relates to improved equipment, the operator will often provide evidence of a purchase and maintenance agreement for the new equipment. Accordingly, a follow-up assessment is not urgently needed.

In the past, reassessments had to be scheduled with the operator and this permitted the operator to unduly delay, citing the necessity to have legal counsel present, scheduling/timing problems, et cetera. The Savings and Restructuring Act now allows for reassessments to be done without advance notice so the timing of them is under the control of the Ministry and the College.

EFFECTIVENESS MEASUREMENT

An evaluation of effectiveness compares actual performance with established goals. The evaluation occurs after a program has been fully implemented and operating for a defined period.

The objectives of the *Independent Health Facilities Act* as stated in the program's 1991 Annual Report are:

- to provide a funding mechanism for the expansion of needed community-based health services;
- to ensure that patients receive quality health care in independent health facilities; and
- to facilitate the establishment of such facilities with the assistance of district health councils to evaluate community needs.

The development of specific indicators to measure the effectiveness of the Act is in the preliminary stage. In February 1995 several study groups were created to review the specific programs administered by the Provider Services Branch.

In January 1996 the Branch prepared a three-year business plan. Included in the plan is the goal to undertake ongoing evaluations of all Branch programs/activities to determine their effectiveness and appropriateness. Specifically, the Branch has proposed a number of strategies to achieve this goal, including the development of performance measurement indicators. These measures consist of:

- reviewing, evaluating and updating the Schedule of Benefits for facility and practitioner payments;
- assessing the quality of facility services provided by operators;
- working with District Health Councils to identify needs for community-based health care facilities;

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- evaluating the effectiveness of the *Independent Health Facilities Act* in controlling the utilization of additional services; and
 - maximizing the effectiveness of program management expenditures.

The general focus of the Branch's business plan is to improve the management and accountability processes through the development of better information systems. At the time of our audit, the plan was under review by senior management and had not been formally approved.

Our review of the draft document indicated that the Branch will be better able to measure the effectiveness of the Act if planned actions are implemented. We will follow up the results of this initiative at the time of our next cyclical audit of the program.

3.14

OTHER MATTER

AMENDMENTS TO *INDEPENDENT HEALTH FACILITIES ACT*

In January 1996 the *Independent Health Facilities Act* was amended by the *Savings and Restructuring Act* to provide flexibility to the regulatory process. The Ministry expects that these amendments, when implemented, will provide improved financial control and accountability over independent health facilities and will improve program efficiency by eliminating the problems in administering the original legislation. Specifically, the new legislation will enable the Ministry to:

- charge facilities an administration fee for performing reassessments;
- revoke or limit licences where a recognized over-supply of services exists; and
- extend the licensing and quality assurance provisions of the Act to facilities and services which, currently, are not covered.

In addition, the College will now be permitted to perform assessments without giving facilities advance notice.

Since these amendments were proclaimed after we had completed our audit, the effectiveness of the amendments in attaining the desired administrative improvements could not be assessed.

Whitby Mental Health Centre

The Whitby Mental Health Centre is one of 10 provincial psychiatric hospitals operated by the Ministry of Health's Mental Health Programs and Services Group. The Centre's goal is to provide "assessment, consultation, treatment and rehabilitation to individuals suffering from serious mental illness, to achieve the earliest successful community reintegration at the most independent level."

The Centre has 287 in-patient beds and approximately 1,300 registered out-patients. The Centre serves individuals from North York (east of Yonge Street), Scarborough, East York, the regional municipalities of York and Durham, and Victoria County. This is commonly referred to as the Centre's "catchment area." In the 1995/96 fiscal year, the Centre incurred expenditures of \$43.7 million, of which salaries and benefits represented approximately 87%.

The Centre's operations are governed primarily by the *Mental Health Act* and the *Mental Hospitals Act*. In April 1995 certain consent rules previously covered in the *Mental Health Act* were replaced by provisions in the *Consent to Treatment Act*. The *Mental Health Act*, as well as the *Consent to Treatment Act*, provide guidance for the fair and equitable treatment of individuals requiring mental health care.

The Centre will be relocating to a new building during the 1996/97 fiscal year. The construction of this building is being managed by the Ontario Realty Corporation.

OBJECTIVES AND SCOPE

The objectives of our audit of the Whitby Mental Health Centre were to assess whether:

- the Centre's goal was clearly defined and whether performance was monitored and evaluated, and the results reported;
- mechanisms were in place to monitor whether applicable legislation, policies and procedures were being followed for the admission, treatment and discharge of patients; and
- resources were being managed with due regard for economy and efficiency.

In conducting our audit, we reviewed the in-patient, out-patient and financial operations of the Centre, pertinent information from the Mental Health Programs and Services Group, and relevant work conducted by the Ministry's Audit Branch. We also interviewed the Centre's staff and patients. Our audit did not include the construction of the new building because that is the responsibility of the Ontario Realty Corporation.

OVERALL AUDIT OBSERVATIONS

The Centre had many methods in place to help ensure that quality care was being provided to patients in accordance with the Centre's goals, legislative requirements, and policies and procedures. The Centre had implemented many of the recommendations resulting from a 1993 review by the Canadian Council on Health Services Accreditation. As well, patients were generally satisfied with the care provided to them. However, improvements need to be made in certain key areas. In particular, the Centre needs to:

- better ensure that individuals in its catchment area have access to its services when required; and
- better monitor compliance with consent to treatment policies and legislation.

While services and assets were generally managed with due regard for economy and efficiency, the Ministry should reconsider its decision to postpone indefinitely copayments for accommodation.

DETAILED OBSERVATIONS

PERFORMANCE MONITORING AND EVALUATION

ACCESS TO CENTRE SERVICES

In order for the Centre to be effective, individuals requiring care must have timely access to the services that best meet their needs.

In 1993 the Ministry announced a 10-year strategy for reforming the mental health system in Ontario. Targets and timetables were established to measure the shift from institutional to community-based care. One target was that by the year 2003, Ontario will maintain a bed ratio of 30 psychiatric beds for every 100,000 people in the province. According to the Centre's 1996 operational plan, the number of psychiatric beds in the Centre's catchment area is slightly below that target. This is due primarily to the population growth in the York and Durham regions.

In 1995 the Centre's Clinical Utilization Review Committee expressed concerns that individuals living outside Durham had difficulty accessing the Centre's services.

The Centre has assigned admission priority to individuals arriving at the Centre needing emergency care, urgent admission or psychiatric assessment, and to individuals being detained under the *Criminal Code of Canada*. Individuals referred from general hospitals are given a lower priority since they are already receiving treatment.

In January 1995 the Committee indicated that the waiting period for patients in general hospitals to access the Centre's services could range from three to six months. Accordingly, some long-term patients were being kept in acute-care general hospital beds longer than would otherwise have been necessary.

We also found that the Centre does not maintain overall waiting lists or keep track of the average waiting time for those awaiting admission.

We noted that the Centre was reviewing its role of providing emergency acute care versus tertiary care (that is, specialized continuing care). In addition, in December 1994, the Centre's administrator identified service changes that would improve the Centre's ability to provide the best possible services to individuals within its catchment area. These changes included:

- reducing admissions from Durham region;
- providing balanced tertiary service to all areas of the catchment area; and
- determining a crisis response role for hospitals with psychiatric units.

The Centre has a number of committees which coordinate services with other local mental health service providers. For example, the Catchment Area Planning and Co-ordination Group provides a regular forum for communication and issue resolution. The group's membership includes representatives from the psychiatric units of general hospitals in the catchment area.

Recommendation:

To ensure that all seriously mentally ill persons have access to the services which best meet their needs, the Centre should track and follow up overall waiting lists and the average length of time patients must wait before they are admitted to the Centre.

Ministry Response:

Waiting lists for all clinical programs are now being tracked and reviewed by each program. The Centre's Professional Advisory Committee and Comprehensive Utilization Management Committee have assumed lead roles in reviewing waiting lists for the Centre as a whole and programs in particular. With the implementation of program management, each clinical program will have primary responsibility for monitoring and following up on waiting list issues. The Comprehensive Utilization Management Committee will assume overall responsibility for this review across the clinical programs. The process of managing waiting list information will be enhanced with the implementation of a new clinical information system.

EVALUATION OF PATIENT SERVICES

The Centre assesses quality of care through internal and external reviews and patient satisfaction surveys. Internal reviews are primarily conducted through various centre committees while external reviews are usually conducted by outside experts engaged by the Centre.

INTERNAL REVIEWS

To assist it in achieving its objectives, the Centre has a number of committees, many of which have patient representatives. Most of these committees report directly or indirectly to the Management Committee, whose role includes ensuring a high standard of patient care and support services through a comprehensive quality assurance program.

The Centre's operational plan, for the two years ending March 31, 1996, indicated that the objective of achieving "optimal quality of service" would be accomplished by supporting and encouraging quality management and program evaluation activities.

Quality management, including quality assurance, covers both in-patient and out-patient programs. Centre departments (for example, nursing and social work) complete quality management reports every six months while the clinical/patient units complete reports every nine months.

We found that quality management reports were often not completed. We were advised that some units and departments were not completing the reports due to planned organizational restructuring. Even where reports were being completed, we found that the Centre was generally not summarizing them. Accordingly, information was not readily available on the Centre's overall ability to meet established quality management targets.

Program evaluation activities were introduced in the Centre in November 1990 to determine whether programs have achieved the desired outcomes or impacts on patients. Program evaluation also identifies whether resources are used to the greatest benefit and where improvements may be needed. Since 1990, ninety-six reviews of clinical programs have been conducted. As a result of these reviews, patients not benefiting from programs were identified and six programs which did not meet the desired program outcomes were terminated.

One objective identified in the Centre's operational plan is to ensure that facility-wide program evaluation activities which contribute to quality improvement are conducted. No cycle exists for conducting program evaluations, and program evaluations are not prioritized to ensure that high-risk programs are evaluated first. Program evaluations are conducted only on a request basis, and two units had not requested a program evaluation.

Recommendations:

The Centre should:

- establish a cycle for conducting program evaluations to ensure that high-risk programs receive priority; and
- ensure that all clinical programs participate in quality management and program evaluation activities.

Ministry Response:

All clinical programs are now participating in quality management activities. Program evaluation activities have not been an essential requirement to date although the majority of clinical programs have participated in program evaluation initiatives. With the implementation of program management, quality management and program evaluation activities will be key and essential elements.

EXTERNAL REVIEWS

Independent external reviews of clinical/patient units are conducted to determine whether a unit's goal is in line with the Centre's overall goal as well as whether patient outcomes are satisfactory. Since April 1993 there have been three external reviews of units. We were informed that the units reviewed were selected by the psychiatrist-in-chief. We found that all significant recommendations in the resulting reports were generally being addressed by the Centre. For example, one unit is reviewing its goals and objectives to ensure they are well formulated and fit well with the Centre's goals.

In 1993 the Centre was reviewed on an overall basis by the Canadian Council on Health Services Accreditation. This review included an examination of the standards for delivery of care by each program and resulted in a number of recommendations. We found that the Centre had implemented many of the Council's recommendations.

PATIENT SATISFACTION SURVEYS

The Centre conducts annual patient satisfaction surveys of discharged patients and in-patients about the care they received at the Centre. Questions range from treatment and discharge planning to the availability of staff. We reviewed the results of the questionnaires and noted that patients were generally satisfied with their treatment at the Centre.

We interviewed a sample of in-patients from various units throughout the Centre and found that patients were generally satisfied with the care provided to them.

COMPLIANCE WITH LEGISLATION, POLICIES AND PROCEDURES

ADMISSIONS

Admissions to most of the Centre's in-patient units and out-patient programs are handled by the Community Mental Health Services Unit. The developmentally handicapped, adolescent and psychogeriatric units handle their own admissions.

The Clinical Record Committee and the Clinical Record Department conduct audits to ensure that policies and procedures related to admissions are complied with. No significant deficiencies were noted in these audits. Our testing of compliance with the policies and procedures also revealed no major weaknesses.

TREATMENT

Multidisciplinary treatment teams are responsible for all aspects of patient care at the Centre. Each team is generally responsible for a number of patients and includes staff from psychiatry, nursing, psychology and social work.

The Centre's policies require the multidisciplinary team to meet within 14 days of an in-patient's admission to the Centre. In addition, a treatment plan must be developed for each patient documenting the patient's problems and planned treatment.

Review conferences are required to be held regularly thereafter, with the team meeting at least semi-annually to discuss the progress of patients who have been in the Centre for more than six months. During these conferences, patient treatment plans are reviewed and revised if necessary. Centre policies also require monthly progress notes and an annual summary to be completed by the physician. For out-patients, Centre policies require the patient's progress to be reviewed at least once every six months.

The Multidisciplinary Audit and Clinical Record Committees, as well as the Clinical Record Department, perform audits of compliance with many of these policies and procedures. No significant deficiencies were noted in these audits. Our testing of compliance with these policies and procedures also revealed no major weaknesses.

CONSENT TO TREATMENT

According to the *Consent to Treatment Act*, a person is mentally capable of consenting to treatment if the person has the ability to understand the information relevant to making a decision concerning the treatment and the person is able to appreciate the consequences of giving or withholding consent.

Consent must be obtained before specified psychiatric and other related medical treatment is provided to patients. To be valid, consent must be specific and must be received after an explanation of the risks and benefits of the proposed treatment. This is commonly referred to as "informed consent." For patients who are not mentally capable, consent must be obtained from substitute consent givers who have the authority to act on the patient's behalf.

According to statistics maintained by the Centre, as of April 1995, eighty-two percent of the Centre's patients were considered capable of consenting to treatment.

According to the Centre's policies, a physician shall record in the clinical record that the patient was appropriately informed. In addition, the physician and the patient shall complete and sign the "Consent for Psychiatric and Other Related Treatment or Procedure" form.

From a sample of patients considered capable of consenting to treatment, we found that:

- the assessment of mental capacity to consent to treatment was not documented in 76% of the clinical records we reviewed;
- informed consent was not documented in 88% of the cases we reviewed. The remaining 12% of the clinical records reviewed had the signed "Consent for Psychiatric and Other Related Treatment or Procedure" form as required by centre policy;

- 60% of the capable patients we interviewed stated that no one at the Centre had explained the side effects of their medications before they were asked to take the medications. Another 13% did not know whether they had received explanations; and
- 39% of the capable patients we interviewed did not know the medication they were taking and 41% did not know what would happen if they did not take their medication. Many of these patients stated that there would be no change if they stopped taking their medication.

From a sample of patients who were incapable of consenting to treatment, we found instances where:

- consent from a substitute consent giver was not received or updated on a timely basis; and
- consent from a substitute consent giver was not specific to a proposed treatment.

Recommendation:

The Centre should ensure that legislation and policies concerning mental capacity to consent to treatment and obtaining informed consent are followed more strictly.

Ministry Response:

The Centre has had in place for the past year a task force which has reviewed legislative changes to consent and capacity legislation and has assisted all clinical staff in the Centre to become familiar with the requirements of the legislation. In conjunction with these changes, the Multidisciplinary Audit Committee is now regularly monitoring compliance with consent to treatment legislation. As well, education sessions have been held for all staff to assist in meeting the requirements of the legislation.

PATIENT RESTRAINTS

Chemical or mechanical restraints may be used to place a patient under control to prevent serious bodily harm to the patient or another person.

In January 1994 the Centre's Medical Advisory Committee suggested that it would be useful to review data for any increase or decrease in restraint usage by particular units within the facility. Restraint data for 1992 and 1993 were subsequently collected. At the time of our audit, no analysis or follow-up had been completed.

Since June 1994 the Centre has not tracked the monthly use of mechanical restraints. Senior management stated that the figures submitted by the units were probably understated and therefore not reliable. We also found that some wards did not submit restraint data. In May 1995 the Clinical Utilization Review Committee noted that committee members should consider how information pertaining to restraint usage might be collected more uniformly across the Centre.

We also noted that the Medical Advisory Committee stated that the Centre's pharmacy should be encouraged to record the use of chemical restraints. However, at the time of our audit, information regarding chemical restraints was not being collected and monitored.

Recommendation:

In order to identify and take action on any unusual patterns of practice, the Centre should track the use of mechanical and chemical restraints.

Ministry Response:

The Nursing Practice Committee has reviewed practices related to mechanical and chemical restraints. A task force will bring forward recommendations on this issue in the spring of 1996. With the proposed introduction of a new clinical information system, the collection and analysis of restraint data will be streamlined making this information available programmatically and centre-wide.

3.15

DISCHARGING OF PATIENTS

The Centre has procedures in place to manage the discharge of patients. Adherence to many of these procedures is reviewed by the Centre's Clinical Record Committee and Clinical Record Department. Their reviews revealed no major deficiencies. In addition, our testing indicated that key procedures for discharging patients were being followed.

MANAGEMENT OF RESOURCES

ACQUISITION AND CONTROL OF GOODS, SERVICES AND ASSETS

We found that the Centre generally had procedures in place to ensure that goods, services and assets were managed with regard to economy and efficiency. Minor items noted as a result of our review were reported to management.

ACCOMMODATION COPAYMENTS FROM PATIENTS

According to the *Mental Hospitals Act*, financially capable patients admitted to a psychiatric hospital are responsible for their maintenance. In 1994 the *Health Insurance Act* was amended to permit psychiatric hospitals to charge a copayment for accommodation as prescribed in the regulations. However, at the time of our audit, the regulations required to implement the copayment were not in place. We were informed that the regulations to charge financially capable patients for their accommodation had been postponed indefinitely. One inequity resulting from not charging patients a copayment is that provincial psychiatric hospitals provide free chronic and long-term accommodation to some patients, yet similar patients at chronic care hospitals, nursing homes and homes for the aged are required to make copayments.

Recommendation:

To comply with the *Mental Hospitals and Health Insurance Acts*, and to ensure equity with chronic and long-term care facilities, the Ministry should reconsider the decision to indefinitely postpone charging financially capable patients for their accommodation at provincial psychiatric hospitals.

Ministry Response:

This recommendation has system-wide implications. It would require implementation on a ministry-wide level.

Occupational Health and Safety Program

3.16

The objective of the Ministry of Labour's Occupational Health and Safety Program is to advance safe workplace practices in order to reduce workplace injuries, illnesses and fatalities. The Program operates under the authority of the *Occupational Health and Safety Act* and Regulations. The legislation covers most workplaces in Ontario. Workplaces not covered include farming operations and those under federal jurisdiction. The Ministry estimated that in 1995 about 300,000 workplaces and 4.6 million workers were covered by the Act.

The *Occupational Health and Safety Act* is based on a philosophy known as the "internal responsibility system." The internal responsibility system derives from the principle that workplace parties themselves—employers, managers and workers—are in the best position to identify health and safety problems and to develop solutions. It places the primary responsibility for creating and maintaining a safe and healthy workplace with them. Provisions of the Act aimed at fostering the internal responsibility system include requirements for employers to have a health and safety policy and program.

The Program, with about 625 staff, is delivered through the Ministry's head office, area offices, and district and satellite offices. It is primarily responsible for the inspection of workplaces for compliance with the Act and Regulations, investigation of accidents and consultation with employers. In addition, the Program provides technical and professional support services, such as laboratory testing to field staff, employers and employees. For the 1995/96 fiscal year, expenditures for the Program totalled approximately \$38.2 million.

In addition to this Program, a number of other organizations are involved in the delivery of programs and services related to occupational health and safety. These include the Workers' Compensation Board (WCB), the Workplace Health and Safety Agency and several health and safety delivery organizations. The WCB provides compensation and rehabilitation services to injured workers. The Workplace Health and Safety Agency's mandate includes developing requirements and administering the certification for joint health and safety committee members as well as funding and overseeing the health and safety delivery organizations. The health and safety delivery organizations promote the prevention of accidents and occupational illnesses through the provision of consultation and training to workplace parties.

OBJECTIVES AND SCOPE

Our audit objectives were to assess whether the Ministry had adequate procedures in place to:

- measure and report on the effectiveness of the Occupational Health and Safety Program; and
- administer and enforce the *Occupational Health and Safety Act* and Regulations economically and efficiently.

Our audit included interviews with ministry officials and an examination of files and documentation. We also reviewed any relevant work done by the Ministry's Program Review and Evaluation/Internal Audit Branch and, where warranted, relied on their work. We visited both area and district offices.

OVERALL AUDIT OBSERVATIONS

As stated above, the WCB, the Workplace Health and Safety Agency and various health and safety delivery organizations are involved in the delivery of occupational health and safety programs. Successes or failures in controlling workplace health and safety hazards and reducing workplace injuries and accidents therefore cannot be attributed solely to the Occupational Health and Safety Program. Regarding these shared responsibilities for worker health and safety, we noted the following points.

- An overall framework for these organizations is needed to help achieve a better understanding of each one's roles and responsibilities. Additionally, the Ministry needs to coordinate the delivery of its programs with those of the other health and safety delivery organizations to avoid duplication of services and inefficient use of resources. Areas where potential exists for better coordination include information sharing, consultation and training services, and communications with workplace parties.
- To the extent possible, any overall program evaluation needs to be coordinated with the other organizations involved.

To ensure that the health and safety of workers are better protected, the Ministry needs to:

- set priorities and monitor the time spent on developing and amending regulations;
- establish a system of risk assessment to identify and target high-risk workplaces for inspection; and
- develop a system for rating the seriousness of violations of the Act and Regulations and for ensuring that significant problems identified by inspectors are promptly followed up.

DETAILED AUDIT OBSERVATIONS

MEASURING AND REPORTING ON EFFECTIVENESS

The Ministry's Occupational Health and Safety Program, the WCB and the Workplace Health and Safety Agency are all directly accountable to the Minister of Labour. The health and safety delivery organizations are external organizations accountable to their boards of directors. Nevertheless, their operations are primarily funded by the Workplace Health and Safety Agency and as such are accountable to that Agency for the effectiveness of the programs funded.

All of these organizations work toward a common goal, which is to reduce worker injury, illness and fatality. To better achieve this goal and to ensure accountability, it is important to have a clear understanding of and agreement about the roles and responsibilities of each organization.

In September 1995 the Minister of Labour commissioned a panel to review the operations of the Workplace Health and Safety Agency. The terms of reference for the panel also included making recommendations to the Minister on the roles and accountabilities of the health and safety delivery organizations, the Ministry, the WCB, employers and workers to ensure the efficient and effective use of resources to improve workplace health and safety.

The panel's report, submitted to the Minister in December 1995, identified the need for overall coordination of workplace health and safety activities, initiatives and results. It recommended that the responsibilities for workplace health and safety in Ontario be clearly defined and monitored through the creation of a mutually agreed upon strategic plan; a mutually agreed upon performance-monitoring system; the creation of an ongoing strategic directions committee composed of senior Ministry and WCB officials; better sharing of data; and coordination of research priorities.

We agree with the panel's recommendations in this area and believe that the development of an overall framework for these organizations involving senior officials from each organization could provide a forum for clearly defining roles and responsibilities. As well, it could help set consistent priorities and coordinate program delivery to avoid duplication and inefficient use of resources. We identified examples of specific areas where better coordination with the other organizations could be practical.

- The WCB had information about workplace locations, accidents and illnesses by type of business. The Workplace Health and Safety Agency had similar information about the names, locations and types of businesses registered with them for certification training. The Ministry could make use of this information in identifying high-risk workplaces and carrying out its enforcement activities.
- The Ministry and the other organizations were involved to varying extents with the provision of consultation and training services for workplace parties. However, the Ministry had not identified areas where duplication might exist or how much could be saved through better coordination.

Additionally, because many organizations are involved in the delivery of occupational health and safety programs, successes or failures in controlling workplace hazards and reducing workplace injuries and accidents cannot not be attributed solely to programs delivered by the Ministry. Therefore, any overall program evaluation would have to be coordinated with the other organizations to the extent possible.

The Ministry indicated that in some cases it may be practical to measure effectiveness on an activity-by-activity basis. For example, the Ministry could measure the short-term effect that a new safety regulation has on a particular industrial sector. The Ministry has recently established a working group to develop appropriate indicators for measuring the effectiveness of its activities, where practical.

Recommendation:

To help achieve the Program's goal of reducing workplace injuries, illnesses and fatalities and to make more efficient use of resources, the Ministry, in conjunction with other health and safety organizations, should:

- develop an overall framework to more clearly define roles and responsibilities, set priorities and coordinate program delivery and evaluation;
- investigate the feasibility of sharing workplace information; and
- establish a mechanism to identify and eliminate duplication of service wherever practical.

Ministry Response:

The Ministry accepts the recommendation and will implement it fully as part of the continuing effort to reduce workplace injuries and fatalities and to improve worker health. While not solely attributable to the Ministry, the fact remains that injuries and fatalities have declined approximately 40% over the last five years. A number of initiatives and reforms, already announced or under way, constitute a beginning toward such implementation as the following examples illustrate.

- *On March 21, 1996 the Minister announced significant reforms to the occupational health and safety system to achieve the goal of preventing workplace accidents and illness. These reforms include immediate action on the recommendations of the Review Panel on Workplace Health and Safety in areas such as coordination and priority setting. In response to the recommendations, responsibilities of the Ministry and the Workers' Compensation Board (WCB) have been clearly defined such that the Ministry is responsible for developing, communicating and enforcing standards, the WCB for prevention of injuries and promotion of good and safe health practices. In addition, the Ministry and WCB are working with stakeholders and others to:*
 - *identify priorities and goals for health and safety with a focus on prevention through improved performance, evaluation and measurement; and*

- *develop a system to measure and monitor the performance of health and safety initiatives and programs to ensure they are effective and have a positive impact on workplace health and safety.*
- *On May 23, 1996 the Minister announced, through the ministry Business Plan, that the Ministry will focus its activities on setting, communicating and enforcing workplace standards which complement the WCB's role of prevention and promotion.*
- *Sharing of information between the Ministry and WCB will promote closer collaboration in planning, setting orders of priority and monitoring health and safety performance, as well as eliminating duplication of services. The Ministry is currently conducting a pilot project and expects to expand the implementation of a system by the end of 1996 in which the ministry inspectors use WCB data on injuries to target workplaces with high injury frequencies.*

Through further development of such initiatives and reforms, the Ministry will aim to achieve the Provincial Auditor's recommendation.

ADMINISTERING AND ENFORCING THE ACT AND REGULATIONS

REGULATION PRIORITY SETTING

The *Occupational Health and Safety Act* sets out general principles and duties for workplace parties. Regulations established under the Act set out in detail how these duties are to be carried out. Separate Regulations apply to construction sites, mines, industrial establishments and "designated" chemical substances present in workplaces. Regulations include various standards, provisions, prohibitions and so on to provide minimum safety requirements that allow workplace parties and inspectors to evaluate whether particular workplace conditions adequately protect the health and safety of workers. All standards, provisions and prohibitions included in the Regulations are legally binding and enforceable.

The Ministry may also establish health and safety guidelines to clarify, explain or expand on requirements established in the Regulations. According to the Ministry, these guidelines are not legally enforceable but do have persuasive value before a court.

Section 21 of the Act allows the Minister to appoint committees or persons to assist or advise the Minister on any matter under the Act. New or amended health and safety regulation proposals are initiated either by the Ministry or, in many cases, on the advice of sector bipartite and tripartite committees appointed by the Minister. (Bipartite committees consist of representatives for management and workers; tripartite committees consist of representatives for management, workers and the Ministry.) Once consensus has been reached, the proposals are submitted to the Ministry for approval by the Minister.

Although the regulation development process allows for stakeholder participation through the sector committees, many sectors are not represented by committees. For example, the Ministry indicated to us that, overall, the mining and construction sectors were well represented and had

little difficulty in arriving at consensus. However, the industrial sector is diverse, is generally made up of small businesses and has a greater proportion of unorganized workers. As a result, it does not have the same extent of stakeholder representation as the other two sectors in addressing health and safety issues.

A priority setting process would determine which health and safety hazards are the most serious and should be given priority for regulation development and amendment, including those in the under-represented industrial sector. However, the Ministry did not have an established priority setting process in place.

In January 1996 a draft discussion paper prepared by the Regulation Development Unit of the Ministry on a process for developing occupational health and safety standards recognized the need to set priorities for the development and amendment of regulations. The discussion paper indicated that to evaluate the seriousness of health and safety risks, criteria such as the likelihood and severity of harmful outcomes, the number of workers exposed and the frequency and duration of the exposure ought to be considered. It proposed that the Ministry prepare annually a ranked listing of the most serious health and safety hazards to be addressed.

We agree that the Ministry needs to set priorities for regulation development and amendment. At the completion of our audit in April 1996, senior management was reviewing that paper, and we will follow up on the action taken in due course.

TIMELINESS OF REGULATION DEVELOPMENT

Committees established under section 21 of the Act develop regulation proposals through a consensus-building process to address identified health and safety hazards. If a committee cannot reach a consensus, the committee presents the Minister with the dissenting views and appropriate background information for further direction or decisions. However, this process could not ensure the timely development of regulations, particularly where committees were unable to reach consensus. This lack of timeliness could result in a failure to promptly address significant health and safety hazards.

A notable example of the lack of timeliness in regulation development is provided by the bipartite committee established to address hazardous substances. In 1988 the Joint Steering Committee on Hazardous Substances was established under the Act to develop and review regulations that serve to control worker exposure to hazardous substances in Ontario workplaces. The Committee was unable to reach consensus on numerous issues, and its work has not directly resulted in any significant new or revised regulations in the area of hazardous substances. The Ministry recognized the ineffectiveness of this Committee but has made little progress in addressing the problem. In January 1995 the Committee was disbanded. The Ministry estimated that more than \$4 million in funding had been provided to this Committee since its inception.

The Ministry is currently reviewing the ways in which it involves stakeholders in the regulation development process. The review is expected to make recommendations for improvements that will allow regulations to be developed in a more timely and effective manner.

Recommendation:

To ensure that significant health and safety hazards are addressed in a timely manner, the Ministry should devise a more pro-active and systematic approach to the development and amendment of health and safety regulations, including the establishment of:

- a priority setting process for ranking significant health and safety hazards; and
- procedures for monitoring the progress of regulation development and amendment and for taking timely corrective action.

Ministry Response:

The Ministry will endeavour to implement this recommendation fully. As the Provincial Auditor's report notes, a draft discussion paper is being prepared to define streamlined processes for developing occupational health and safety standards and, in the work thus far, it has been recognized that priorities must be set where it is determined that regulations are needed to address particular hazards. The Joint Steering Committee on Hazardous Substances in the Workplace, which since 1988 had the mandate to make recommendations respecting hazardous substances to the Minister, has been disbanded. In the streamlined processes that will be developed, it is recognized that the Ministry must make decisions in a timely fashion, set priorities and must include mechanisms for monitoring progress. The Ministry remains committed to consulting with stakeholders within this framework.

ENFORCEMENT

OVERVIEW

In accordance with the principle of the internal responsibility system, the Act requires most workplaces with 20 or more workers to have a joint health and safety committee with both management and worker representatives. For small workplaces, a health and safety representative for workers is required instead. The main purpose of the committees and health and safety representatives is to identify and evaluate workplace hazards and to make recommendations to the employer regarding health and safety concerns.

If the internal responsibility system fails to adequately address health and safety issues in a workplace, or if the Act and Regulations are not being followed, the Ministry has the authority to enforce the law. Ministry inspectors have broad powers to inspect any workplace, investigate any injury or accident, order compliance with the Act and Regulations, and initiate prosecutions. Inspectors also provide consultation services on occupational health and safety issues to workplace parties.

The Ministry uses the computerized Merged Information System (MIS) for planning work and tracking inspector field visits, which comprise inspections, investigations and consultations to

workplaces. The MIS includes information on workplace locations, the nature of businesses listed, results of visits, such as orders issued, and so on.

In the 1995/96 fiscal year, about 42,000 field visits to workplaces, consisting of 27,200 inspections, 11,600 investigations and 3,200 consultations, were conducted by approximately 260 inspectors.

WORK REFUSALS

The Act gives most workers the right to refuse work if the worker has reason to believe that job, equipment or workplace conditions are likely to endanger worker health or safety. If a worker refuses work on the basis that it is unsafe, the worker is required to notify the supervisor concerned. The supervisor along with another worker or a joint health and safety committee member will investigate the reasons for the work refusal. If the issue is not resolved, and the worker continues to refuse work, the Ministry will be notified and is obligated under the Act to investigate the work refusal and render a decision.

The Ministry conducted a study covering the period July 1993 to July 1995 involving a sample of about 780 work refusals at large workplaces with joint health and safety committees. The study concluded that two thirds of the work refusals involved situations that subsequently were judged "not likely to endanger" the health or safety of workers. Also, a significant amount of ministry resources was used to respond to work refusals. The Ministry estimated that the average cost for investigating these work refusals was about \$2,250 per case.

The legislation encourages workplace parties to be self-reliant in resolving health and safety issues through their joint health and safety committees. The primary responsibility for workplace health and safety remains with workplace parties through the internal responsibility system. By making more workplaces self-reliant, the Ministry could concentrate its enforcement efforts on workplaces that are not now self-reliant and need help in getting to that state. However, little can be done to address this problem under the current legislation.

Recommendation:

The Ministry should develop alternatives for dealing with work refusals to reduce the need for inspectors to investigate minor workplace health and safety hazards. Such alternatives could include a recommendation for revisions to the current legislation.

Ministry Response:

The Ministry is in full agreement with this recommendation and will implement it. The Ministry had already implemented more efficient procedures for initially addressing work refusals by phone or fax in some circumstances. The Ministry's policies and procedures will be further reviewed with respect to work refusals as part of the comprehensive review of the Occupational Health and Safety Act. The Ministry remains committed to the worker's right to refuse dangerous work.

PRIORITIZING WORKPLACE INSPECTIONS

As noted previously, the Ministry estimated that in 1995 about 300,000 workplaces and 4.6 million workers were covered by the Act. The Ministry, with its limited resources, cannot inspect all workplaces. Therefore, a system for prioritizing workplace inspections is needed to minimize the risk of significant health and safety hazards in workplaces.

Usually, inspectors select workplaces for inspections based on their knowledge of risks associated with known workplaces in their assigned areas, information available from the Merged Information System (MIS) and discussions with their peers. Also, the Ministry has on occasion instructed its inspectors to focus their inspections on specific industrial sectors. However, it did not have a systematic approach in place to assess the risk of individual workplaces using criteria such as the size and nature of operations, inspection history and repeat violations. Consequently, the Ministry cannot ensure that inspectors are targeting high-risk workplaces for inspection appropriately.

The MIS was designed for recording information on the number and type of activities, events and orders issued with regard to specific clients and sectors. It was not designed to record and provide accident or illness statistics. In this regard, the WCB and other health and safety organizations maintain information about workplace locations, accidents and illness. Recently, the Ministry has obtained some information on workplaces from the WCB that could assist in prioritizing and targeting high-risk workplaces. For example, in a recent pilot study conducted within an area office, WCB data on lost-time injuries were used by ministry inspectors to target selected workplaces. The study found the data useful in identifying and targeting potentially hazardous workplaces. The Ministry is now in the process of expanding its field testing of WCB data in another area office.

Recommendation:

To reduce the risk that workplaces with significant health and safety hazards will not be inspected, the Ministry should systematically prioritize workplace inspections. This system should include:

- developing procedures and criteria for identifying high-risk workplaces and targeting workplace inspections; and
- making more extensive use of workplace information from the Workers' Compensation Board (WCB) and other health and safety organizations.

Ministry Response:

The Ministry accepts the recommendation and will continue to develop ways of identifying and targeting hazardous workplaces.

The Ministry is improving its process for systematically identifying high-risk workplaces and targeting inspection at the provincial/regional levels.

- *On a program basis, annual sector planning documents are prepared which set goals, objectives and activities by area and district, and they provide information to enable front-line field staff to plan their work at the individual level. In the Industrial Health and Safety Program, for example, information on 16 sectors sets out field delivery strategies, key issues/concerns, major and new hazards, and statistical data, among other parameters that field staff use in planning their work.*
- *As the Provincial Auditor's report notes, the Ministry has conducted a pilot study in which WCB data on lost-time injuries were used by ministry inspectors to target selected workplaces, and the Ministry is now in the process of expanding such application of WCB data.*

Such initiatives will be further developed to establish a comprehensive approach for identifying high-risk workplaces and for targeting inspections.

OUTSTANDING ORDERS

Inspection staff may issue an order of compliance if, during a field visit, a health or safety hazard or non-compliance with legislation is observed. An order of compliance is a legal direction to an employer to comply with the law within a certain time period or, if the hazard poses a serious risk, to comply immediately. Where the hazard in question is dangerous to the health and safety of a worker, the inspector may order that the work be stopped; that any equipment, hazardous substance and so on not be used; or that the workplace be cleared of workers and access to the workplace be prevented until the hazard is removed.

When an order is issued by an inspector, a copy of that order is given to the joint health and safety committee or the health and safety representative of the workplace affected. The employer must send written notice to the Ministry within three days of compliance with the order. The notice must be signed by the employer and accompanied by a signed statement from a worker-member of the joint health and safety committee or a health and safety representative indicating agreement or disagreement with the employer's notice of compliance with the order.

The Ministry issued approximately 35,000 orders for the 1995/96 fiscal year. When issued, an order is logged on the Ministry's Merged Information System (MIS). The order is only to be removed from the system when the inspector is satisfied through a notice of compliance submitted by the employer or a reinspection that the identified safety hazard has been corrected or that the workplace is in compliance.

At the time of our audit in February 1996, we noted that approximately 13,600 orders were indicated as outstanding on the MIS. While the nature of the violation was described on each order, the Ministry did not have a system to rate the seriousness of the violations and, accordingly, could not establish priorities for following up on the most serious violations. For the area and district offices visited, we reviewed over 3,800 outstanding orders and found that almost 50% of the outstanding orders were older than one year and some were more than five years old.

Ministry officials could not explain why some orders had remained outstanding for so long. The current system of monitoring cannot ensure that the required notices of compliance are

being submitted by employers or that any notices received are being reviewed and the orders removed from the MIS. In the absence of adequate documentation on outstanding orders, there is no assurance that identified health and safety hazards and violations have been corrected.

Recommendation:

To ensure that appropriate corrective action has been taken on identified health and safety hazards and violations, the Ministry should:

- investigate the feasibility of developing a system of rating orders of compliance according to the seriousness of infractions identified; and
- establish a system to monitor and promptly follow up on serious outstanding orders.

Ministry Response:

The Ministry accepts the recommendation and will consider ways to implement it. As noted in the response to the recommendation on monitoring field visits (below), the Ministry's operational plan includes a requirement that a quality assurance system be implemented in each program. The final draft has been prepared for the construction program. Dealing with outstanding orders will be a component of the quality assurance system.

MONITORING FIELD VISITS

At the completion of a field visit, the inspector submits a project/premise report to the local office so that the results of the visit can be entered into the MIS for possible review by managers. In this regard the MIS includes information on orders issued by inspectors and notices of compliance received from employers. We reviewed a representative sample of files at the offices visited and found that over 15% of the files showed no evidence that notices of compliance had been submitted by employers or that other verification of workplace compliance with orders issued, such as reinspection, had been done.

A proper review and monitoring of inspector's field visit activities, reports and other documentation would help ensure that employers comply with notices of compliance. It would also improve the quality and timing of inspection, provide useful feedback for future field visits and allow better use of inspection resources.

Recommendation:

To improve the quality of inspections and ensure better use of inspection resources, the Ministry should establish appropriate procedures for managing field visits.

Ministry Response:

The Ministry accepts the recommendation and will consider ways to implement it. The operational plan initiative of implementing a quality assurance system in each program will contribute toward achieving this recommendation.

TRAINING FOR INSPECTORS

The Ministry's goal in training is to have well trained staff who can deliver consistently high quality service to its clients. The Ministry requires all newly hired inspectors to undergo both field training and a mandatory instruction program. Newly hired inspectors obtain field training by accompanying an experienced inspector during inspections and investigations.

Mandatory instruction covers knowledge and skills essential to performing particular job functions, for example, knowledge of specific legislation, prosecution policy and investigative procedures. According to the Ministry, the extent of mandatory instruction required for newly hired inspectors depends on their levels of skill and prior experience. Mandatory instruction is usually delivered by ministry personnel in a classroom, although other methods such as self study and one-on-one instruction are also used.

In our review of a sample of files for inspectors hired within the last five years, we noted that very few of them had completed the mandatory instruction. In this regard, ministry officials indicated that approximately 50% of its mandatory instruction courses were out-of-date and needed to be revised.

In addition, the Health and Safety Program's managers are responsible for appraising the performance of all inspection staff, identifying their training needs through annual performance reviews and developing individual training plans with them. We reviewed a sample of personnel files and noted that over two thirds of them did not have current performance reviews or training plans on file.

Recommendation:

To meet its goal of having well trained staff who can deliver consistently high quality service to clients, the Ministry should ensure that annual performance reviews for inspection staff are done on a timely basis and that training needs for new and existing staff are properly identified and addressed.

Ministry Response:

The Ministry shares the concern of the importance of training for inspectors and accepts the recommendation. Currently a few area offices of the Ministry include a training plan as part of their performance management system. This will be expanded to be province-wide in the next year to emphasize the importance of and the Ministry's commitment to training. The new training guidelines for the coming year include a mandatory training plan as a component of the training management system. In addition, the Ministry will review the list of courses in the Ministry's Training Guideline and update it to reflect the training needs of all inspectors and the Ministry's new Business Plan. The Ministry will explore opportunities for partnerships with health service delivery organizations to develop new courses or updates to existing courses.

ONTARIO REALTY CORPORATION

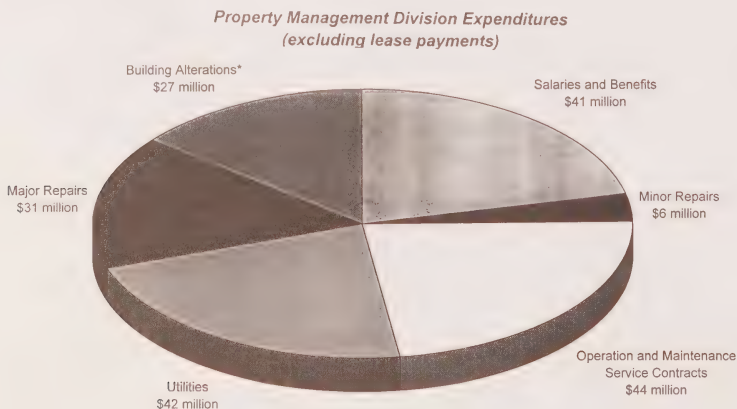
Property Management Division

The Ontario Realty Corporation (ORC) was established under the *Capital Investment Plan Act, 1993*. Its legislative mandate is to provide the Government of Ontario with financing and services related to real property. ORC's Board of Directors is responsible to the Chair of the Management Board of Cabinet. On February 1, 1995, the staff of the Realty Services Group of the Management Board Secretariat, which managed real property prior to the establishment of ORC, was transferred to the Corporation.

The largest division within ORC is the Property Management Division. It is responsible for providing property management and accommodation services for most of the Ontario government's 80,000 employees. The Division's goal is to adopt businesslike and customer-focused practices in the provision of property management and accommodation services.

The Division operates on a decentralized basis through six regions, each headed by a director of facilities. There are 40 facility managers across the six regions, each responsible for a designated portfolio of buildings. In total, this portfolio consists of 5,200 buildings with total space of approximately 47 million square feet. Of this, slightly more than half consists of general office space while the rest is made up of special purpose space such as courthouses and jails. Of the total space, about 11 million square feet are leased from the private sector.

For the 1995/96 fiscal year, Property Management Division expenditures totalled \$405 million with \$214 million relating to lease payments to private sector landlords and the remaining \$191 million relating to the following areas:



* NOTE: Building alterations are before costs recovered from building occupants.

In its November 10, 1995 report to the Minister of Finance, one of the recommendations of the Ontario Financial Review Commission dealt with the ORC. The Commission recommended that ORC retain its status as a Crown agency, but be treated as a government service organization rather than a government enterprise because it does not sell goods or services to non-government entities as its main activity. In the May 1996 *Ontario Budget* the government announced it was reviewing ORC's mandate.

OBJECTIVE AND SCOPE

3.17

Our audit objectives were to assess whether the Property Management Division had adequate procedures in place to ensure that the real property it is responsible for was being managed with due regard for economy and efficiency and that the government's real property assets were being adequately maintained.

Our audit included interviews with management and staff from across the province and detailed testing of repair, operations and maintenance service expenditures. Where necessary, we extended our audit work into other operating branches within ORC. We also conducted research into public sector property management initiatives being undertaken in other jurisdictions both within Canada and internationally. Additionally, we reviewed relevant work done by the Management Board Secretariat's Audit and Business Improvement Branch and, where warranted, placed reliance on such work.

Our audit focused on property management and accommodation services and did not include a review of leasing costs and leasing information systems. Costs related to the upkeep and operations and maintenance of certain special purpose facilities which were included in the operating budgets of the tenant ministries were not included in the scope of our audit.

OVERALL AUDIT OBSERVATIONS

The ORC faces a number of significant challenges. It has had to maintain an inventory of aging government buildings and provide tenant services amid significant downsizing during its transition to a more commercially-oriented property management and accommodation service provider.

If ORC is to successfully meet these challenges, it must improve its management information systems. The present information systems do not provide facility managers and senior management with information on a building-by-building basis, which is necessary for sound property management.

In our 1989 report on government accommodation management, we reported that conflicting responsibilities had resulted in inadequate procedures for ensuring the optimal utilization of accommodation space across the government. This problem is still not satisfactorily resolved. ORC believes the planned implementation of an accommodation chargeback system and related procedures as well as ongoing accommodation downsizing will address this issue. We

believe certain criteria need to be met as part of chargeback implementation to ensure efficient space utilization by the government.

In 1989 we also concluded that repairs and operations and maintenance services were not being acquired economically and that repairs were not being undertaken only when needed or in order of priority. For the 1995/96 fiscal year, the Division spent about \$81 million on such repairs and services and another \$27 million on building alterations. Our work indicated that, while some improvements are still required, these areas are being better managed than they were six years ago.

Overall Corporation Response:

On the whole, the Ontario Realty Corporation agrees with the findings outlined in the report and with the recommendations. However, ORC would emphasize the dramatic change that has occurred from being a fully funded operation of the Ministry of Government Services to being a cost-recoverable service organization with its own board of directors. The ORC was striving to achieve this transformation when significant new funding constraints were imposed, and a number of reviews of the ORC as an agency were commissioned by the new government in the summer of 1995. ORC reacted quickly to meet the constraints by establishing the Accommodation Program Review which was approved by Cabinet in October 1995 and moved the date for chargeback to April 1997. It was during this period that the Provincial Auditor's Office conducted its audit.

Since then, ORC has evolved considerably as an organization and continues to evolve. Although ORC recognizes that there are still challenges, they are similar to those faced by other government accommodation organizations.

DETAILED OBSERVATIONS

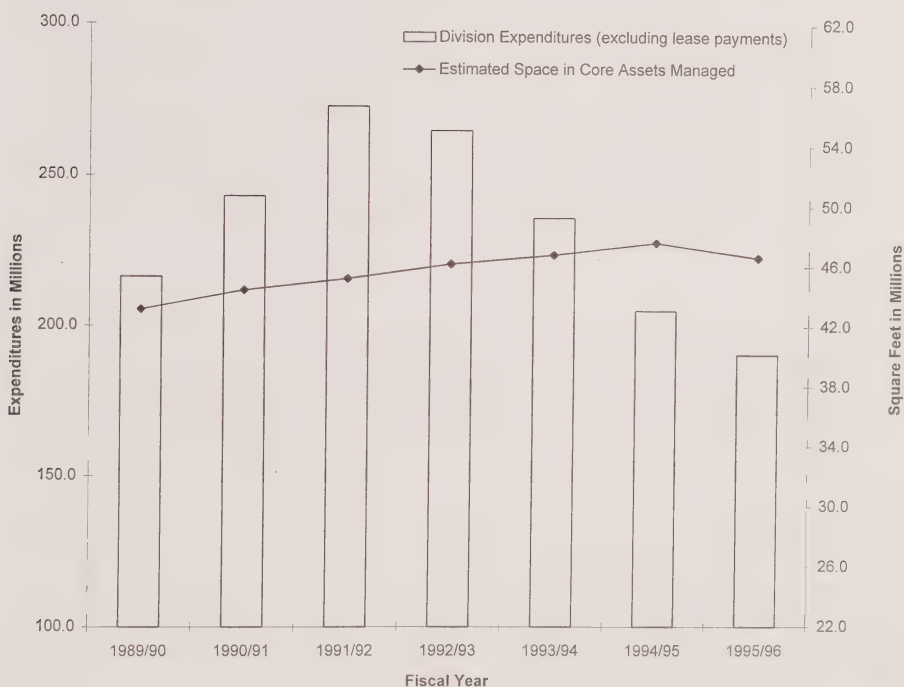
PREVENTIVE MAINTENANCE

An integral part of a sound property management system is a good preventive maintenance program. There are several levels of preventive maintenance. For instance, maintenance to meet health and safety standards such as regular maintenance of elevator safety systems is obligatory. Basic maintenance of critical building operating systems, such as heating and ventilation systems, is also essential to ensure that the systems keep running. Other maintenance routines on these systems, such as frequent changing of air filters, are desirable but not critical because the systems will keep running although they may be less efficient. Maintenance of other components of buildings, such as carpeting and landscaping, may also be less critical. Our research indicated that deferring repairs and maintenance over the long term often leads to a decrease in building value, increased repair and operating costs, and may shorten the useful life of the building components even though costs are saved in the short term.

The first step in a preventive maintenance program is the ongoing and timely identification of maintenance needs for each building. A good preventive maintenance program requires periodic inspections by trained technical personnel to assess the effectiveness of maintenance programs and detect potential problems.

Division procedures require the ongoing inspection of buildings to ensure they are properly maintained and to develop five-year plans for maintenance and repairs. Our discussions with facility staff covering the last two fiscal years indicated that these inspections were generally conducted on an informal basis but that information on total long-term maintenance and repair needs for each building was not summarized or analyzed. However, in 1995 formal inspections were conducted of the 224 buildings which will initially be subject to accommodation chargeback, and five-year repair plans were developed. Subsequent to our fieldwork, the Division advised us it intends to develop long-term repair plans for the remaining buildings once the current rationalization of ORC's real property portfolio has been achieved.

Since the 1991/92 fiscal year, the Division has experienced a 30% reduction in its funding yet the portfolio of space it has responsibility for managing has actually increased slightly over the same time period, as can be seen from the following chart.



In addition, there has been a 20% reduction in division staffing levels, from 929 positions late in the 1993/94 fiscal year to 744 positions late in the 1995/96 fiscal year. This has placed additional pressure on the Division in providing tenant services and maintaining the buildings in its portfolio.

In order to implement additional cuts to operations and maintenance budgets while maintaining minimum service levels, ORC has started a comprehensive review of operations and maintenance contract requirements for the services it acquires from the private sector. The objective is to establish a minimum service level across the province while allowing for flexibility to meet tenant ministries' needs. Private sector standards are considered in establishing the minimum standards.

Facility managers from across the province informed us that because funding for the day-to-day operations of their buildings was inadequate, they have had to divert money originally planned for repairs costing less than \$50,000 (minor repairs) and defer less critical maintenance to cover the shortfall.

However, based on our discussions and the responses to questionnaires we sent to half of the facility managers, the expenditure cuts have not yet seriously affected the day-to-day operations of the buildings. For instance, although operations and maintenance service contract requirements have been reduced in response to budgetary constraints, no building shutdowns were identified by the facility managers as having occurred due to inadequate maintenance.

Notwithstanding that fact, the majority of facility managers we surveyed indicated that some repairs were required to bring their buildings into compliance with applicable codes, regulations and internal government policies. Furthermore, they advised us that any further reductions in repair funding or in operations and maintenance service levels would have an adverse effect on tenant services and on the serviceability of their buildings. Senior management advised us that the consequences of taking additional expenditure cuts were recognized and resulted in the initiation of the current Accommodation Program Review.

Recommendation:

To ensure that real property assets are managed for maximum long-term economic advantage, the Property Management Division should monitor and analyze the long-term impact of reduced maintenance funding on repair and operating costs, tenant satisfaction and the service life of the buildings in its portfolio.

Corporation Response:

The Division has recognized the impact of reduced funding and has begun to rationalize its portfolio in order to reduce costs and strategically allocate its resources to those buildings which are core to the ORC portfolio while maintaining health and safety standards in others.

The Division will improve the way it implements its preventive maintenance program. The Division will monitor and identify the impact of reduced maintenance funding. The Division intends to approach this by developing long-term repair plans and building them into the operations and maintenance service contracts it negotiates with the private sector.

MANAGEMENT INFORMATION SYSTEMS

NEED FOR AN INTEGRATED SYSTEM

3.17

Our research indicated that one characteristic of a sound property management function is a management information system that provides the necessary information for management control and sound decision making. The system should record and aggregate the description, the condition and value of each property, and financial and operating performance information. The property information system should also be integrated with other functional systems such as the accounting system.

Our research also indicated that operating and financial performance information should be reported on a building-by-building basis to enable the determination of whether the buildings make sound financial sense and support their customers' needs cost effectively. Additionally, such reporting allows detailed comparison of actual costs against budget for individual buildings so that variances can be promptly identified and timely corrective action taken.

As of February 1996 there were a number of different systems which contained information on properties under management, repairs, energy consumption, and financial and staffing information. Three key information systems used by the Division are the Property Information Management System, the Project Reporting System and the Financial Information System (FIS).

However, the present information systems are fragmented and do not provide facility managers with operating costs on a building-by-building basis as the required information cannot be readily extracted from the various systems or is simply not available. Facility managers indicated that, although all operating costs are captured in FIS, there is no automated means of determining costs for each building. The calculation and reporting of expenditures on a building-by-building basis would need to be done manually and would be very time consuming. The majority of facility managers advised us that they do not have the time to do this on a regular basis.

Although ORC had begun investigating the possibility of implementing an integrated management information system, this initiative was recently put on hold as the strategic direction of ORC was under review. In the meantime, the Division continues to use its existing systems, interfacing those systems where necessary. However, these interim measures are not an adequate long-term solution.

Recommendation:

To facilitate the monitoring of financial and operating data on a building-by-building basis and to meet the long-term strategic information needs of management, the Property Management Division should implement an integrated management information system if the direct delivery of property management services continues to be a part of its mandate.

Corporation Response:

The Division agrees with the recommendation.

An improved management information system has been a goal of the Division for several years. The Division has worked to link its property management systems with the Ontario Realty Corporation's financial system, to enhance its ability to identify and monitor costs by developing a new chart of accounts and changing to accrual accounting. The Division has reviewed responsibilities for data entry and verification and aligned them to ensure that front-line staff at the local level are accountable.

The Division acknowledges that this is not enough. However, the Division has considered it inappropriate to make the necessary significant investment in information technology until the role, structure, mandate and new operational processes have been defined. The data, system functionality and access required by the Division will be quite different, depending on its future direction, and it would be premature to make strategic technology decisions before this direction is determined. In the meantime, the Division has dedicated considerable effort to verifying current data regarding ministries' space allocations, linking current costs to buildings and linking capital projects to its portfolio strategy.

PROPERTY INFORMATION MANAGEMENT SYSTEM

The Division's Property Information Management System (PIMS) records real property owned and leased by the province and the space allocated to each ministry. Our analysis of information in PIMS as of January 1996 indicated that much of the information that the Division considered essential was missing or inaccurate. For instance, only a small percentage of property records contained information necessary for monitoring payments in lieu of property taxes or for determining the extent to which the Division is responsible for compliance with the fire code.

We also questioned whether accountability for ensuring the accuracy of the information in PIMS had been clearly assigned and was being periodically monitored. For instance, over the summer of 1995, the rentable square feet in 287 buildings was remeasured by consultants to facilitate the implementation of the proposed accommodation chargeback system. However, our review of half of the consultants' reports indicated that in 61% of these cases the rentable square footage was still not accurately reflected in PIMS as of January 1996.

We were advised that the Division was in the process of updating and validating all key information in PIMS and was in the process of transferring responsibility for data quality checking from its head office to the facility management units during the time of our audit.

Recommendation:

To ensure that information for decision-makers is complete and up-to-date, the Property Management Division should formalize accountability for the verification of current data and the maintenance of complete and accurate information in the Property Management Information System (PIMS).

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Corporation Response:

The Division agrees with the recommendation. In fact, the Division is testing a new approach where responsibility for maintaining the accuracy of the information in PIMS has been assigned to the facility management units, and a data improvement project is currently underway. Once completed, the approach will be formalized and the policy and procedures will be updated.

IMPLEMENTING THE ACCOMMODATION CHARGE-BACK SYSTEM

In both our 1985 and our 1989 audits of government accommodation management, we concluded that procedures were inadequate to ensure space was being efficiently used throughout the government as a whole. This situation resulted primarily from conflicting responsibilities over the efficient and economic utilization of space. Furthermore, the service-oriented role of providing realty services conflicted with the policing role of ensuring optimal utilization of space.

Our previous audits noted that, although ministries were required to use space efficiently, they were not charged for the amount of space occupied and accordingly had little incentive to declare under-utilized or surplus space. Also, the former Ministry of Government Services, which was responsible for space management at that time, did not periodically review ministry space entitlements against space actually occupied. Therefore, in most cases, surplus or under-utilized space was not being identified.

Since our last audit, total government space has increased by about 8% while the number of employees has declined by about 9%. While no formal analysis of the increase in space was available, ORC advised us that it was not necessarily due to employees occupying more space but rather due to the time lag between downsizing and space consolidation. As well, additional facilities have been constructed in connection with the Ontario government relocation program and to increase public access to government services.

Ministries and agencies are responsible for efficient use of space and for identifying and reporting vacant or under-utilized space. However, the lack of effective monitoring procedures by central agencies and incentives to encourage compliance with this policy continues to be a problem. ORC acknowledged that strengthened accountability for space utilization was needed but advised us that the function of delivering services and satisfying client needs continued to conflict with the oversight role of monitoring and questioning clients' space utilization needs and that both the Management Board Secretariat and ORC had continued to give priority to the service-provider role. A recent report issued by the United States General Accounting Office on public sector real property management noted that the conflict between satisfying tenant needs and enforcing space utilization standards was a common problem. The report stated that centralized real property organizations in Australia and Sweden have taken the position that their job is to meet, not police, tenant space needs and that the oversight role is not their responsibility.

ORC expects that better utilization of space would be addressed by the current Accommodation Program Review which was approved by the Management Board of Cabinet in October 1995. Under this program, ORC was given authority to cut about 30% from the government's current accommodation expenditures. ORC advised us that, for the first time, the Management Board of Cabinet has given ORC a mandate to work with line ministries to reduce space and to apply common space standards.

ORC also advised us that the planned implementation of an accommodation chargeback system in an environment of continuing restraint is expected to encourage more efficient utilization of space. Under the proposed accommodation chargeback system which ORC plans to have partially implemented by April 1997, tenant ministries would receive appropriations to pay for the amount of space occupied. If they want additional space over and above their appropriations, they will have to find the funds from other program areas. Conversely, if they are able to economize on the amount of space utilized, part or all of the savings could be spent in other program areas. ORC's expectation is that the incentives provided by this process will eliminate any under-utilized or surplus space currently in the system.

Our research into the implementation of chargeback in other jurisdictions indicated that chargeback, in itself, may not be sufficient to ensure the optimal utilization of space across the government as a whole. Some of our concerns are detailed below.

- Unless tenant ministries have the freedom to choose between real property service providers, there may be little incentive for significant improvements to property services.
- The administrative overhead associated with a chargeback system can be costly. The federal 1985 Neilsen Task Force on Program Review observed that chargeback administration can become "a vast exercise in financial and information system development."
- For the larger ministries, accommodation costs will be a relatively small component of their total program appropriations. Consequently, the cost of maintaining additional space over and above their immediate needs may not be significant enough to act as a sufficient deterrent. However, on an overall basis, total government accommodation costs are substantial and must be well managed.
- Historically, surplus and under-utilized space has often gone unidentified. If ministries receive appropriations for the amount of space currently being occupied, inequities in the system will be perpetuated.

We discussed the issue raised in the last point with Public Works and Government Services Canada which is also in the final stages of planning for the implementation of an accommodation chargeback system. To ensure any current space allocation inequities were identified prior to the introduction of chargeback, Public Works and Government Services Canada in conjunction with Treasury Board Secretariat conducted a rigorous space audit using space standards and head counts as identified by tenant departments. It is the intention that federal departments would receive funding only for the amount of space they are entitled to and not the amount of space they occupied at the time of the audit.

Our discussions with ORC indicated that such a process would not be an initial part of Ontario's chargeback implementation. However, towards the end of our audit fieldwork we were informed that, as part of the recent Accommodation Program Review, ministries have been assigned space savings targets which include new space standards, and ORC will be responsible for ensuring compliance with these standards in those projects which ministries identify to meet their savings targets.

Recommendation:

To ensure that the proposed accommodation chargeback system does not perpetuate inequities and optimizes space utilization, the Ontario Realty Corporation should:

- ensure that the chargeback system has adequate incentives to encourage tenants to minimize space occupied;
- ensure that each tenant ultimately receives funding only for the amount of space it is entitled to and not the amount of space occupied; and
- keep the ongoing administrative costs of the new chargeback system to a practical minimum.

Corporation Response:

ORC agrees with the recommendation.

ORC believes that the approach of reviewing and reducing space through the Accommodation Program Review, charging ministries for the space they use and continued cost constraints will provide ministries with sufficient incentives to maximize the efficient and cost-effective use of space. It should also be noted that ministries will not receive full funding for rental charges, as the funds allocated to them will include a share of the total constraint on space costs.

Accommodation Program Review will remove a large amount of space from the corporate portfolio through space rationalization and disposal. Out of a total of 47 million square feet, a reduction of about six million square feet is expected over the next two fiscal years, 1996/97 and 1997/98.

With regard to the recommendation about funding, ORC agrees with the recommendation in principle and does not want to perpetuate inequities. However, we are concerned about the cost-effectiveness of, and the length of time required to implement, the approach used by Public Works and Government Services Canada. Nevertheless, we have begun discussions with Public Works and Government Services Canada regarding the administration of chargeback and will continue to consider how best to meet this objective once we better understand how other jurisdictions have approached this issue and once we analyze how effective our own initiatives have been.

MEASURING AND REPORTING ON PERFORMANCE

Our research into reforms by real property management organizations in other public sector jurisdictions indicated that the establishment of measurable performance targets and the subsequent reporting of results achieved against these targets was an integral part of their overall business strategies. For instance, the United States government's centralized real property organization is implementing performance measures in the following four areas:

- customer satisfaction based on surveys, complaints and tenant retention levels;
- cost-effectiveness as measured against other providers of real property services;
- price competitiveness based on comparisons with the private sector lease rates; and
- timeliness of service delivery.

Many real property organizations in other jurisdictions have also begun to actively "benchmark" or compare the cost and level of their property services and asset costs with other public and private sector organizations. In order to do this, the performance monitoring system must enable the collection and reporting of results against targets for each building and on an aggregate basis.

ORC has recognized that effective and cost-efficient performance monitoring is critical to its success and has identified a number of corporate performance indicators. It has not yet reported its actual performance against these indicators but we were informed that it plans to report on its performance against several of them in its 1996 annual report. The Division has also recognized the need to be able to measure and report on the operating and financial performance of each building. However, this project has been put on hold until ORC's future mandate is clarified by the government.

Recommendation:

The Property Management Division should finalize, implement and monitor appropriate performance indicators and report on its success in contributing to the achievement of the Ontario Realty Corporation's overall business objectives.

Corporation Response:

The Division agrees with the recommendation, is establishing benchmark performance measures in ORC's annual report for the 1995/96 fiscal year and is further building on these in its 1996/97 Corporate Plan. Subsequent to the audit, the Division also completed an interface between its Financial Information System and its Property Information Management System to facilitate the analysis of the financial performance of each building.

PRIORITIZATION OF MAJOR REPAIRS

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The government's inventory of aging buildings and related equipment such as elevators, air conditioning chillers and heating systems is increasingly in need of repair or replacement. The Division defines major repairs as those costing over \$50,000. In the 1995/96 fiscal year, the Division spent approximately \$31 million on such repairs.

In our 1989 audit of government accommodation management, we concluded that procedures did not ensure repairs were undertaken only when necessary and in the assessed order of priority. Our current review of the major repair prioritization process indicated that improvements have been made since 1989. Specifically, proposed major repairs are prioritized at the regional level, and the Division's Management Committee determines which major repair projects will be given priority on a province-wide basis. Deviations from established priorities are now discussed and approved by the Management Committee.

ACQUISITION OF CONTRACT SERVICES

The Division spent approximately \$108 million on construction, operations and maintenance services in the 1995/96 fiscal year. We conducted detailed testing in three regions on the procedures and controls over services purchased between April 1994 and November 1995. Although our work indicated that definite improvements in the acquisition of contract services have been made since our last audit of this area in 1989, we did have the following observations and recommendation for improvement.

CHANGE ORDERS ON CONSTRUCTION PROJECTS

The original contract price can escalate if additional work is performed by the contractor. Additional work may result from increasing the scope of the original project, omissions from the tendered design specifications or unforeseen work relating to site conditions. Such work is processed through a document called a change order. Awarding additional work through a change order may not be cost-effective because the work is not competitively acquired. Additionally, in the case of major repair projects, the work added as the result of a change order is not subject to the province-wide prioritization process. Therefore, it is important to keep change orders to a minimum.

The Division does not regularly compile or summarize data on change orders. However, we analyzed completed repair projects from April 1994 to November 1995 and found that one third of the completed repair projects had change orders. The total change orders increased the

original contract awards of these projects by \$9.7 million or 18%. The following chart outlines the details of several of the larger change orders.

Original Contract	Change Order	Description
\$330,000	\$101,000	Original contract was awarded to repair air distribution system. Division staff indicated that change orders were primarily due to design specification omissions in the original plans.
\$103,000	\$188,000	Original contract was awarded to lower drinking fountains and phones. Change orders related to installation of automatic door operators for the handicapped and washroom alterations subsequently added to the project.
\$232,000	\$131,000	Original contract was awarded to modernize elevators. Change orders related to air conditioning of control rooms omitted from the tendered design specification. This work was still not included in the tender even after a memo was circulated reminding staff that elevator modernization must include the air conditioning of control rooms. Furthermore, rather than completing the modernization and then competitively tendering the omitted work as a new project, the work was processed by a change order which resulted in the elevator modernization company netting a \$10,000 mark-up for subcontracting the air conditioning work.
\$962,000	\$284,000	Original contract was awarded under the jobsOntario Training Fund Program for an energy efficiency upgrade. However, subsequent change orders were issued for window cleaning and additional caulking, windows and ductwork.
\$561,000	\$117,000	Original contract was awarded to demolish an old jail. Change orders related primarily to additional hazardous material found on-site even though an external consultant had been paid \$150,000 to carry out an environmental site investigation in planning the project.

We found that either the construction program manager or the facility manager responsible approved all change orders. However, there was no documented evidence that large change orders were subject to senior management review. ORC's internal guidelines require change orders in excess of 10% of the original project cost to be approved by senior management.

The directors of facilities in the regions tested advised us that they rely on their staff to forward change orders requiring their review and approval but acknowledged that their approval of the change orders is often not documented. Senior management acknowledged that such approval should be documented but suggested a 20% threshold as being more reasonable than the 10% threshold, given the reduced staffing levels in the Division.

Recommendation:

The Property Management Division should improve the planning process to reduce the percentage of projects requiring change orders. Additionally, all change orders exceeding a specified percentage of the original contract award or a certain dollar limit should be formally approved by senior management.

Corporation Response:

The Division agrees with the recommendation regarding reducing the dollar value of change orders and in developing a division monitoring process which will analyze change orders and identify ways to reduce them. The Division has also taken steps to improve the current procedure which requires change orders to be approved by senior management by strengthening the documentation of such approvals.

The Division would like to stress, however, that in the five cases noted by the Provincial Auditor, the Division feels it has received value for money with the change orders.

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ONTARIO TRANSPORTATION CAPITAL CORPORATION

Highway 407 Central Project

Highway 407 Central is being built as a multi-lane, fully electronic toll highway extending 69 kilometres across the top of Metropolitan Toronto. It is to consist of four to six lanes with concrete pavement and high-mast, full-illumination lighting.

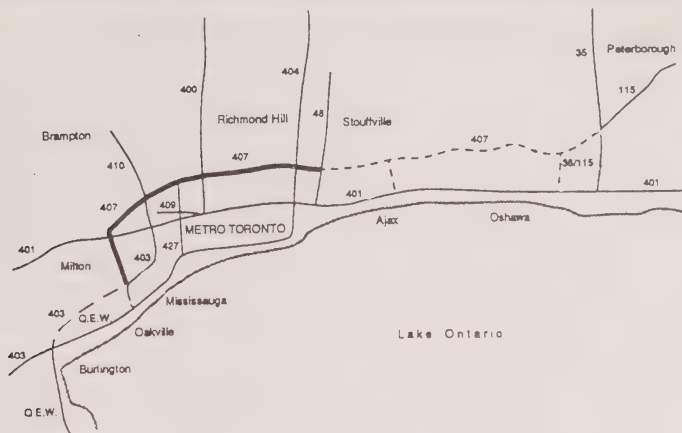
Highway 407 Central is expected to be one of the first fully electronic toll highways in the world. There are to be no toll booths or coin machines so motorists will not have to stop or slow down to pay tolls. Tolling system plans call for motorists to use a small electronic device called a "transponder" to identify where their vehicles enter and exit the highway. Tolls on vehicles without transponders are to be levied by means of a licence plate recognition and billing system. Toll charges will depend on the distances travelled and whether the vehicles are for passenger or heavy commercial use.

The government committed to start construction of Highway 407 Central in 1994 when, in February 1993, it announced the project as a jobsOntario initiative to create more than 26,000 jobs. Requests for proposals to construct Highway 407 Central were issued in September 1993 to two Ontario-based project management, engineering and construction consortia comprising more than 30 companies. The highway was to be developed, design-built and operated by the successful bidder as a toll highway for 30 years before being transferred over to the province. The Ontario Transportation Capital Corporation (OTCC), a Crown agency of the Province of Ontario, was given the responsibility for implementing the project on behalf of the government. Previously, the Ministry of Transportation had been directly responsible for the project's development.

On April 8, 1994, the government announced the consortium it had selected to design-build Highway 407 Central. On May 11, 1994, OTCC entered into an agreement with that consortium to design and build Highway 407 Central, without the tolling system or operations and maintenance components, for a guaranteed maximum price of approximately \$930 million. OTCC had decided to award the tolling system component to the group of tolling companies within the other consortium. The value of the tolling contracts as of March 1996 was approximately \$72 million.

Financing for the project as it progresses has been provided by the Ontario Financing Authority, an agency of the Crown, through direct provincial borrowing. The borrowing is to be fully repaid from the toll revenues collected.

Construction of the highway began in the spring of 1994. The first 36-kilometre section (Highway 410 to Highway 404) is scheduled to open at the end of 1996 and the entire highway (from Highway 403 to Highway 48) by 1998. Although not part of the contract described above, the highway is ultimately expected to link with the Queen Elizabeth Way in the west and Highways 35/115 in the east. These plans are illustrated on the map below:



- | | |
|--|---|
| | Highway 407 Central (awarded and to be completed in phases by 1998) |
| | Highway 407 West (planned for the future) |
| | Highway 407 East (planned for the future) |

Source: Ministry of Transportation Request for Proposal dated September 1993.

OBJECTIVES AND SCOPE

The objectives of our audit were to assess whether:

- a fair and competitive selection process was followed and adequately documented in awarding the major Highway 407 Central contracts; and
- there has been due regard for economy and efficiency in the planning, development and implementation of the Highway 407 Central project.

The scope of our audit included a detailed review and analysis of available documentation prepared for the Highway 407 Central project from the time of its inception in the spring of 1993 to the end of January 1996. The audit was conducted at the OTCC head office and its site office. As part of our audit, we also met with staff from the Ministry of Transportation, the Ontario Financing Authority and reviewed documentation prepared by outside consultants involved with the project.

OVERALL AUDIT OBSERVATIONS

The Highway 407 Central project was structured to be a new delivery model for the construction of Ontario highways. According to this model, the highway was to be designed and built for a fixed price by a private sector contractor with construction costs to be repaid through tolls paid by users of the highway. This arrangement, especially the collection-of-tolls aspect, allows for larger projects to be undertaken at a faster pace.

The timetable for Highway 407 Central was an ambitious one when compared to traditional provincial highway construction timetables. The request for proposal was issued in September 1993; the agreement to build the highway was signed in May 1994; and the first 36-kilometre section is scheduled to be open by the end of 1996.

Much importance was placed by the government on the urgent need for a new highway to relieve traffic congestion in the Metropolitan Toronto area, to take advantage of the low business cycle with potentially lower construction costs, and to stimulate the economy by creating employment in the road construction sector.

We observed that, although cited as a public-private partnership, the government's financial, ownership and operational risks are so significant compared to the contracted risks assumed by the private sector that, in our opinion, a public-private partnership was not established.

We found that the selection of the winning submissions for the design and construction of the road and tolling components of the project followed a pre-determined process and the proposals were evaluated by experienced evaluation teams using pre-determined evaluation criteria. An external firm of management consultants was hired to oversee the selection process.

We concluded that there was due regard for economy and efficiency in the planning, development and implementation of the Highway 407 Central project to the extent indicated by the points below.

- There was a demonstrated need for Highway 407.
- Value engineering was used in designing the highway.
- Economic processes were in place for project monitoring as to the quality and progress of the winning consortium's work.
- A number of the request for proposal objectives were achieved or are in progress.

However, we found that there are areas the Ministry of Transportation needs to consider for improvement when undertaking projects of a similar nature in the future. Specifically, these areas are:

- the minimum number of bidders and design and construction alternatives needed to provide an adequate basis for decision making. In the case of Highway 407 Central, only two consortia submitted two design and construction proposals;
- the level of specific design criteria that should be provided to bidders. The Highway 407 Central request for proposal provided very general design criteria. For example, the number of lanes, type of pavement and type of illumination were not specified. The Ministry needs to weigh the benefits gained from providing the private sector with the flexibility to be innovative against the cost of having bids which may not be price-comparable because they are so different;

- the clarity of the request for proposal in conveying to the bidders the Ministry's intentions and expectations regarding the sharing of risks and rewards;
- whether components of a project that have become separated or "unbundled" from the original request for proposal need to be tendered separately. The Highway 407 Central request for proposal challenged the two consortia to submit integrated proposals taking on all risks associated with the highway including financing and associated risks, construction, and operations and maintenance over a 30-year period. Ultimately, the project was not fully integrated as the province assumed 100% of the financing and operating risks. The removal of private financing from the Highway 407 Central project meant that the Ministry would be responsible for financing the project and would assume operating and ownership risks from the outset rather than after 30 years as originally envisioned.

The tolling system was unbundled and awarded separately to the tolling consortium of the losing proponent. As well, the operations and maintenance contracts were to be awarded to the winning consortium without separate tenders. Apparently, it would have been feasible to separately tender both the highway maintenance and tolling system contracts;

- what constitutes a meaningful level of warranty coverage relative to the nature and magnitude of the project being undertaken;
- whether it is appropriate to apply the revised standards originating from the Highway 407 Central value engineering exercise to other provincial highway projects to serve as a benchmark for cost reductions; and
- the effectiveness of the new procedures used to monitor the quality of the winning consortium's work. Monitoring costs have been substantially reduced by emphasizing greater reliance on the contractor combined with end-results testing.

DETAILED AUDIT OBSERVATIONS

CONSORTIUM SELECTION

In May 1993 requests for qualification were sent by the Ministry of Transportation to two consortia inviting them to make submissions demonstrating that they had the capacity to finance, design-build and operate Highway 407 Central as a toll highway, without or with minimal use of provincial funds, financial support or guarantees.

Ontario Transportation Capital Corporation (OTCC) officials informed us that they had also held preliminary discussions on the proposed project with a number of other firms in the market, and it was considered desirable to use companies with a presence in Ontario both in order to provide jobs in Ontario and to create industry expertise in Ontario with a view to exporting it in the future.

After deciding that the two consortia met the qualification requirements, the Ministry awarded them contracts to prepare "value engineering assessment reports" to identify design and construction cost-effective alternatives to the Ministry's standards.

On completion of the value engineering assessment exercise, a new baseline highway design was prepared incorporating some of the resulting recommendations. This new design was used

as the basis for a request for proposal issued to the two consortia in September 1993. The request for proposal called for detailed proposals and business plans to finance, design-build and operate Highway 407 Central as a toll highway for 30 years before transferring it over to the province.

The baseline design requirements as stipulated in the request for proposal were intentionally left very broad. This represents a radically different way of designing highways from previous ministry methods. Traditionally, highways were designed by ministry staff on an “input” basis. That is, private sector participants responded to detailed design-build specifications prepared by the Ministry.

In contrast, Highway 407 Central was designed on an “output” basis. Essentially, the Ministry requested the private sector to design and construct a toll highway, providing only a small number of specific design details as guidance. For example, the request for proposal did not specify the number of lanes to be provided, the type of pavement or the type of lighting to be used.

Ministry officials advised us that this approach had been deliberately chosen in order to provide the opportunity for a meaningful public-private sector partnership which could bring to a public sector project the initiative, inventiveness and efficiency of the private sector.

As might be expected, the proposals that were submitted on December 13, 1993 by the two consortia offered substantially different toll highway designs.

The winning consortium proposed an initial highway of four to six lanes, upgradable to six to ten lanes if necessary, with full illumination for 58 of the 69 kilometres and partial illumination for the balance. Concrete pavement with a 30-year design life was proposed. Most of the Ministry’s design specifications were retained except for a mixed tolling system with automatic vehicle identification and manual toll booths that was proposed instead of a fully electronic system. Construction was to be completed by 1999.

The other consortium proposed a reduced-scope highway consisting of four lanes throughout, expandable to eight lanes if necessary, with full illumination only at certain interchanges. Asphalt pavement with a seven- to ten-year design life was proposed, with rehabilitation to start in the year 2003. A fully electronic tolling system with videotracking was proposed, as desired by the Ministry. Construction was to be completed by 1997.

After reviewing both submissions and consulting extensively, OTCC decided that the financing plans of the two proposals by the two consortia were unacceptable because both consisted primarily of debt with only nominal equity contributions and required substantial financial support from the government. It was determined that private sector financing would result in higher cost for the project because the private sector’s cost of borrowing is higher than that of the government.

Given the minimal equity contributions offered, the government would be required to bear an overwhelming proportion of the project’s risks, including those associated with the financing and operating viability from toll revenues. Accordingly, the government decided to finance the project directly through government borrowing. Financing, therefore, was removed as one of the determining factors in the selection between the two proposals.

Since its road design was considered to be of better value by the project evaluators, the winning consortium was awarded a contract to design, build and operate the road component of the project with 100% government financing. However, the winning consortium's design for the tolling system was rejected primarily because it was based on a mixed system instead of an electronic tolling system as desired by OTCC. As a result, OTCC decided to unbundle the tolling system component and award it as a subcontract without a separate tender call to the other consortium because it had proposed an all electronic system.

All other contracts were subsequently awarded or are intended to be awarded to firms associated with the two consortia.

A significant factor for OTCC's selection of the winning consortium's highway design was that the consortium's design represented better value based on an estimate that was performed by an independent engineering consulting firm. In order for OTCC to evaluate the relative values of the two bids, the consultant provided an independent cost-estimate for each of the proposals submitted.

The process that was followed resulted in the two consortia submitting two road and tolling proposals. In our opinion, for future projects, the Ministry needs to assess whether a process which results in a limited number of proposals is appropriate for projects of this nature or magnitude.

As a comparison, we reviewed the process that was followed by the Ministry for the recently awarded Queen Elizabeth Way design-build project and noted that requirements such as the number of lanes, pavement and illumination type and other more detailed requirements were specified. Each bidder presented the province with various design and construction alternatives. In total three consortia presented a total of 18 different design options. This process allowed for better comparisons among bidders as to the cost effectiveness of their bids.

We also noted that for the federal government's design, construct, operate and maintain Northumberland Strait Crossing project linking Prince Edward Island with the mainland, six consortia initially submitted seven proposals. This project is estimated to cost \$700 million.

Under traditional ministry construction contracts, bidders are provided detailed specification on all aspects of the highway design inputs. This allows comparability with regard to price as all contractors are bidding on the same details. The ministry process followed for the Highway 407 Central project did not allow for this level of price comparability due to the lack of specified basic requests such as number of lanes, type of pavement surface and lighting.

The Canadian Council for Public-Private Partnerships recently issued a best-practices guideline entitled "Initiating Contracts and Contracting with the Private Sector." To ensure competition and fair and equal treatment in the procurement process, the guideline recommends that "procuring entities should resist preparing requests for proposals which are only biddable by one or two bidders. If too many bidders are eligible to be involved at the request for proposal stage, many potential bidders will be discouraged from investing the time and resources to put together a complex proposal. Three bidders gives entrants reasonable odds. Eight bidders makes a major investment hard to justify."

Recommendation:

For future projects, the Ministry should consider the minimum number of bidders and design and construction alternatives needed to provide an adequate basis for decision making. Additionally, the Ministry should weigh the benefits gained from providing the private sector with the flexibility to be innovative against the cost of having bids which may not be price-comparable because they are so different.

Ministry Response:

We agree that there is an optimal number of bidders that would result in an effective, efficient and economical price. The determination of the optimal number would have to take into account the cost associated with the preparation and evaluation of the bids. One of the government's principles at the time was the utilization of Ontario-based companies for the delivery of Highway 407 Central and a stated objective of the project was the development of exportable expertise.

We agree that the benefits obtained from providing flexibility should be greater than the costs of assessing bids. This approach proved very successful in the Highway 407 Central project, as it resulted in approximately \$300 million of cost avoidance to the province, through value engineering and economies of scale.

CONTRACT TENDERING

UNBUNDLING OF THE REQUEST FOR PROPOSAL

In our opinion, the intent of the request for proposal could have been made clearer. The overall intent, as reflected in the introduction to the request for proposal, was for the respondents to provide a project proposal and business plan to finance, design, construct, maintain, operate and transfer Highway 407 Central as a toll road which would include without limitation a finance plan, project schedule and guaranteed maximum price.

However, the request for proposal also contained a provision requesting the two consortia to submit a guaranteed maximum price for a design-build contract exclusive of any financing risk. The option for the government to finance the project was not specifically mentioned in the request for proposal. However, the Ministry felt, and an external legal opinion confirmed, that the design-build provision was strong evidence that financing by the government itself was always contemplated as a possibility. OTCC also indicated the consortia were informed of this possibility during the proposal process.

As well, the terms of the request for proposal allowed the choosing of the tolling component from one submission without accepting the construction component from that submission. An opinion by external legal counsel indicated that OTCC was not legally obligated to seek additional proposals for the tolling technology contracts after the changes that occurred. The

selection of the tolling consortium from the other submission was fully in compliance with the selection process, and OTCC therefore decided to take the less time-consuming route of accepting one of the two original tolling proposals in order to meet the scheduled opening date for the highway, even though it might not have resulted in the lowest cost bid. This was considered economically feasible because a process to tender for alternative tolling system suppliers would have, in the opinion of the Ministry, required a six-month duration resulting in delaying the completion of the highway and collection of toll revenues.

Recently, the Canadian Council for Public-Private Partnerships recommended that the request for proposal solicitation document should contain sufficient information to permit bidders to thoroughly understand the objectives of the request for proposal as well as the details of proposed or planned management and operational requirements.

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The removal of private financing from the Highway 407 Central project meant that the government would be responsible for financing the project and would assume operating risks from the outset rather than after 30 years as originally envisioned.

In our opinion, with the need for an integrated project gone and the requirement for private financing and the tolling system unbundled, it might have been more desirable to have other groups bid on certain components of the project.

Tendering the separate components might have resulted in a more cost-effective highway design since project financing, risk, design and price are highly interrelated.

For example, a road's design is affected by the type of tolling system that will be used. The road design that was proposed by the winning consortium assumed the use of a tolling system that was not fully electronic. Features such as long entrance and exit ramps to enable acceleration and deceleration to toll booths and a third lane for mainline toll plazas were incorporated into the design. This design was quite different from the simple two-lane (in each direction) non-stop highway proposed by the other consortium for its proposed all electronic tolling system.

OTCC also agreed in principle to award the Highway 407 Central operations and maintenance contract for services such as routine and preventive maintenance and highway rehabilitation, to a company owned by the winning consortium. It will also have a role in the negotiation and management of the tolling-system operations and maintenance contract.

After unbundling, we question why a company owned by the winning consortium should be awarded the operations, maintenance and management contracts without competition.

Recommendation:

Future requests for proposals should clearly convey the government's intentions and expectations of the sharing of risks and rewards. Additionally, to ensure cost-effectiveness, when components of a project become separated or unbundled from the original request for proposal, the government should consider tendering those components separately.

Objective	Our Observation
To arrange for the private sector to complete the project	In progress
To achieve the development of the facility at a reduced cost and in a shorter period than would otherwise be possible	Achieved
To minimize the Crown's financial commitment to the project	See note 1 below
To return the facility to the Crown at the end of the term of the project	Not achieved See note 2 below
To protect the interests of the highway users as they relate to fair pricing and quality of service	Not determinable at this time
To develop a "strategic partnership" between the Crown and the private sector with respect to the project	Minimally achieved
To encourage the development of exportable expertise for Ontario-based companies in the areas of toll road design and construction, project management, project finance and electronic toll technology	Ongoing
To establish benchmarks for cost reductions which may be applicable to other Crown highway projects	Achieved
To retain public policy flexibility in the areas of transit, high-occupancy vehicle lanes, intelligent vehicle/highway systems and other traffic management techniques	Achieved

Note 1: The Ministry's interpretation of minimizing the financial commitment to the project was that while private sector financing was desirable, the two consortia proposals required substantial provincial guarantees and support. Since substantial risks would remain with the government, it was decided that the objective of minimizing the government's financial costs would best be met utilizing provincial financing.

Note 2: The request for proposal specified that the facility would be returned to the Crown at the end of a 30-year term which meant that the private sector was to operate the highway for the first 30 years.

Originally, the government's objective appeared to be predicated on the principle that the private sector take on all of the risks associated with the project, which included financial risk, the building of the highway maintaining and operating it for a 30-year period, and returning it to the Ministry at the end of that time.

This is evidenced in the business arrangements section of the request for proposal. The basic framework stipulated that:

- *the Ministry enter into a development agreement with the selected consortium for a term of not more than 30 years; and*
- *the selected consortium be entitled to collect toll revenues and other sources of revenue from the facility to repay the outstanding debt relating to the facility and to receive an acceptable rate of return.*

With respect to the objective of developing a “strategic partnership” between the government and the private sector, the government has assumed ownership and operational responsibilities, and all financial obligations associated with the project. Some design risks and quality monitoring responsibilities are being shared.

The selected private sector consortium has assumed the usual business risks associated with any fixed-price construction project. This is evidenced by the consortium’s provision of a guaranteed maximum price for construction and payment of liquidated damages for late completion as well as incentives for early completion to reflect the additional revenues that would accrue to the project.

Recommendation:

In future partnership agreements with the private sector, the government should strive for a better balance of risks and rewards.

Ministry Response:

The agreements to develop-design and build Highway 407 Central and to supply the toll system ensured that appropriate risks were transferred to the parties that could best mitigate against and bear those risks at the lowest cost. Although at present the government has assumed the funding and operating risks, it will, when warranted by the toll highway operations, consider privatizing the financing to maximize the amount of risk transferred.

VALUE ENGINEERING

The Ministry agreed to pay \$1.5 million per consortium to subsidize the costs of preparing value engineering assessment reports for the Highway 407 Central project and responding to the subsequent requests for proposals. The value engineering assessments involved a review of the preliminary ministry design for Highway 407 Central to identify more cost-effective solutions for the transportation needs of the Highway 407 corridor. Value engineering assessment reports were submitted by the two consortia in August 1993.

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A new baseline design, incorporating some recommendations from both consortia, was developed and used as the basis for the request for proposal.

The new baseline design resulting from the value engineering initiative was less expensive than the preliminary ministry design. The cost avoidance, estimated by OTCC at approximately \$300 million, resulted primarily from the deferral or deletion of interchanges, or the changing of standards normally applied in ministry highway construction. The following list details some of the changes that were made.

- Three interchanges were deleted between the tollway and the arterial roads.
- Six interchanges were deferred pending future needs evaluation.
- Clearances to obstructions or structures were lowered to 5.0 and 8.5 metres from 10.0 metres.
- Entries and exits from speed change lanes were lowered to 446 metres from 500 metres.
- The minimum radii of the inner loops for tollway to freeway interchanges were reduced to 75 metres from 120 metres.
- A composite pavement structure was no longer required.
- Crushed rock instead of concrete was allowed for slope protection at structures.

Recommendation:

The Ministry should assess the applicability of the revised standards originating from the Highway 407 Central value engineering exercise as benchmarks for cost reductions to other provincial highway projects.

Ministry Response:

The Ministry recognizes the benefits of value engineering and where appropriate will continue to implement the value engineering approach to future provincial highway projects and will continue to ensure a safe driving environment.

PROJECT PLANNING

FINANCING

There are very few privately financed toll highways in North America. A credit rating agency has studied a number of start-up toll highways in the last several years and has assigned an investment-grade rating to revenue bonds for only one such highway. The difficulties in obtaining investment-grade ratings for toll highways include:

- uncertainties regarding the level of customer acceptance;
- risks associated with the political climate in which rates are set, road alignment established and facilities operated; and
- the significant uncertainties related to construction.

According to the credit rating agency, another important factor that could hinder an investment-grade rating is the existence of non-toll routes that could compete with the toll highway. Accordingly, the existence of toll-free Highways 7 and 401 would affect the credit rating that Highway 407 Central receives.

The credit rating agency indicated that it might rate a start-up toll facility as below investment-grade initially and upgrade it to investment quality over time as speculative elements are reduced. For example, construction risk may disappear following completion of the facility, and an operating history will reduce reliance on revenue forecasts lacking a historical basis.

The difficulty in obtaining an investment-grade rating may explain why financing for Highway 407 Central is now being provided through direct provincial borrowing.

3.18

Recommendation:

The Ministry should closely monitor the toll revenue projections for Highway 407 Central to ensure that the project remains financially viable and that the most appropriate financing options are undertaken.

Ministry Response:

In 1995 the OTCC and the Highway 407 Central project were subject to a review by the Ontario Financial Review Commission. The Commission recommended that "OTCC and the government monitor regularly and assess at least annually OTCC's [Highway 407 Central Project] performance against projections to support its . . . self-sustainability." In April 1996 the board of directors of OTCC reviewed and confirmed those projections through its corporate planning process which in turn has been reviewed by the Ministry. This review will be an annual undertaking.

TOLLING SYSTEM

The tolling technology chosen by OTCC is a combination of transponders for frequent users and a videotracking system for infrequent users. The transponder will fit on the dashboard of the vehicle and will be triggered when the vehicle enters or exits the highway. The videotracking system photographs the licence plates of vehicles as they enter or exit.

A toll revenue consultant retained by OTCC outlined some potential problems with tolling systems incorporating videotracking technology. In a letter dated March 1994, the consultant indicated that United States agencies found they had a 3-5% error rate in the matching of entrance and exit transactions. Any unmatched transaction would either go unbilled or would have to be assumed to be a maximum-length trip. This provides the opportunity for numerous disputes.

OTCC officials indicated that they had adjusted their revenue-pricing strategy to compensate for any leakage due to errors, and the videotracking system agreements will have supplier-

guaranteed specifications for minimum levels of reliability. According to a November 30, 1995 status report prepared by the company managing the project, the system performance requirements in the Toll System Supply Agreement were still to be finalized.

The consultant also raised questions as to whether other jurisdictions would join in a reciprocal agreement to collect toll charges. For instance, it is questionable whether New York State would prevent the renewal of vehicle registrations simply because tolls were owed in Ontario.

We reviewed status reports on the tolling system prepared by the company responsible for managing the project. The most recent reports we reviewed were for the months ending September 30, October 31 and November 30, 1995. Those reports indicated that, while as a whole the tolling system project was still close to schedule, there were many critical technical areas that were falling behind, some by as much as two months and that there was not much cushion remaining.

WARRANTIES

Under the warranty that was negotiated for the highway, the winning consortium must at its own expense rectify any defect or deficiency, other than defects or deficiencies caused by reasonable wear and tear or deficient maintenance, up to a maximum aggregate amount of \$20 million, that appears prior to and during the period of:

- two years following the date of acceptance of any paving, building, bridge or other structure forming a part of the construction work; and
- one year following the date of acceptance of any other component, except tolling technology.

The change from a finance, design-build and operate project to a design-build only project makes a meaningful warranty much more critical since the contractor no longer “owns” the highway for the first 30 years as originally planned. Therefore, under the current warranty, any early deficiencies above \$20 million and any subsequent deficiencies will have to be corrected at the expense of the Ministry instead of the contractor.

At the time of our audit, final details of the tolling system warranties were still being negotiated. Our understanding is that the tolling companies must at their own expense correct any problems with their respective subsystems up to one year after full acceptance of the subsystem, except for transponders which have a warranty period of two years.

The Ministry’s construction standards and specifications have traditionally been very prescriptive, describing every aspect of construction including the methods and materials to be used and their sources of acquisition. This meant that contractors assumed very limited risk on construction projects, provided that they followed ministry specifications.

Citing a general trend in North America, the Ministry has, over the past few years, started to modify its standards and specifications in an attempt to shift responsibility to the construction industry. In doing so, some standards have been modified from having very prescriptive specifications to end-result specifications which are intended to ensure that the product supplied by the contractor meets some pre-determined performance criteria regardless of the production process. The specified criteria can be confirmed by various post-construction means, subject to test limitations.

The Ministry has also been looking at the use of a type of end-result specification known as performance-based specification. This type of specification requires that the end-result specification be directly related to the performance of the final product and normally includes price adjustments or specific warranty provisions where performance does not meet requirements.

End-result-based contracts have generally worked well provided that appropriate quality assurance arrangements are in place and are backed by reasonable warranties from contractors.

Ministry staff informed us that, although they have been seeking more extensive warranties, they have had difficulty in obtaining them because the costs of warranties might be incorporated into the price the Ministry must pay and because of a lack of industry willingness to provide better warranties.

However, in our 1995 audit of the Ministry's Quality and Standards Activity, we noted that warranties have been successfully used in other jurisdictions such as the United States and Europe for projects ranging from rehabilitation to the incorporation of new technologies to maintenance work. We noted that the warranty period has typically been between one and five years.

We believe OTCC has a unique opportunity to be innovative in the warranty area since OTCC recognizes as part of its mandate the development of innovative and more effective delivery models for constructing highways.

Recommendation:

The Ministry should evaluate the costs and benefits of obtaining warranty coverage in future projects to ensure that a meaningful level of coverage is negotiated.

Ministry Response:

We agree that a thorough cost-benefit analysis should be performed to ensure an optimal warranty coverage at a minimal cost. The Highway 407 Central project represents the first highway project where the province has achieved this level of warranty.

MONITORING QUALITY AND PROGRESS

We noted OTCC had processes in place for project monitoring as to the quality and progress of the winning consortium's work. In addition, procedures were in place for the review and control of payments to the contractors, including ongoing monitoring of contracts.

An independent engineering consulting firm was hired by OTCC as an agent at a cost not to exceed \$5 million over five years. In general, the independent agent is responsible for undertaking the approval process for the consortium's design and construction activities as specified in the development and design-build agreement. Two OTCC construction managers, working

closely with the independent agent, oversee project construction and quality. The independent agent will also ensure that during implementation of the project, the consortium is in compliance with design and construction conditions in the agreement and that the consortium fulfils all related contractual obligations. On-site inspections, including product and process audits, are performed by the independent agent as part of its functions.

The Highway 407 Central budget for monitoring is one half of one percent of the total highway cost, which is less than the normal 8-10% for ministry contracts. Much reliance has been placed on the contractor for quality assurance checks usually performed by the Ministry. For instance, the independent agent is not involved in the selection of samples for laboratory testing, which has been left to the discretion of the consortium. Monitoring costs have been substantially reduced by emphasizing greater reliance on the contractor combined with end results testing. This is consistent with a trend in the industry towards self-monitoring and ISO certification.

CHAPTER FOUR

Follow-up of Recommendations in the 1994 Annual Report

4.00

Since 1993 it has been our practice to make specific recommendations for corrective action by ministries and agencies, and two years after publication of the recommendations in our *Annual Report* to follow up on the status of action taken. This Chapter provides some background on the audits comprising the Value for Money Chapter of our *1994 Annual Report* as well as the current status of implementing the recommendations made. We are pleased that in many cases our recommendations have been either fully or substantially implemented. However, in several cases, progress has been slow or is ongoing. In cases where the recommendations have not been implemented, or are still in the process of implementation, a brief description of the current status of action taken by the ministries is provided.

MINISTRY OF THE ATTORNEY GENERAL - FAMILY SUPPORT PLAN - SECTION 3.01

BACKGROUND

The Family Support Plan is responsible for enforcing support and custody orders. This responsibility includes collecting and disbursing support payments and taking enforcement action on cases in default.

In 1994 we assessed the adequacy of procedures in place to enforce support payments and to measure and report on the performance of the Plan. We recommended that the Plan take more appropriate action on default cases, maintain proper documentation on its enforcement efforts, overcome its computer system deficiencies and work with the courts and the legal community to make support order provisions more practical and enforceable. We also recommended that the Plan develop improved indicators for measuring and reporting on its performance.

CURRENT STATUS OF RECOMMENDATIONS

The Ministry has taken action on our recommendations made in 1994. Recommendations relating to the following areas have been substantially implemented:

- Documenting Default Cases;
- Management Practices for Computer System Development; and

-
- Assigned Cases - Timeliness of Assignment Notices.

With respect to our other recommendations, the status of the actions taken in those areas is as follows.

COMPUTER SYSTEM - OPERATIONS ISSUES

Recommendation

The Ministry, in conjunction with the Plan, should take all steps necessary to improve its computer system and ensure that the deficiencies identified are corrected.

Current Status

The Ministry believes that the current computer system must be replaced with a new system better designed to meet the Plan's operational needs. The Plan is now undertaking detailed business planning and modeling analyses which will be used to define the system's requirements. The analyses must take into consideration national initiatives as well as the impact of possible legislative changes to the Plan's mandate and enforcement powers.

COMPLEXITIES OF SUPPORT ORDERS

Recommendation

The Ministry should work with, and request the cooperation of, the courts and the legal community to develop approaches to making family and child support provisions more practical to calculate and more readily enforceable. The Ministry should investigate alternative methods of ensuring that both recipients and the province receive interest on arrears to which they are entitled under support orders.

Current Status

The Ministry has initiated action to simplify provisions of support orders that are complex and difficult to enforce or administer. The Ministry informed us that it has had discussions with the Ministry of Community and Social Services, members of the judiciary, the Canadian Bar Association-Ontario Family Law Section and the Legal Aid Plan to develop approaches to making support orders more enforceable and practical to calculate.

Additionally, in May 1996 the federal government introduced amendments to the *Divorce Act* to establish child support guidelines. The amendments have the potential for significant changes in the determination of family support and the types of terms that support orders will contain. Ministry and plan staff are continuing to work with their federal, provincial and territorial counterparts on these issues.

With respect to calculating interest on support arrears and enforcing payment, the Ministry has taken the position that addressing this issue would not be cost effective since the number of cases in which interest is recoverable may not be that significant. However, the Ministry has indicated that the above initiatives may result in support orders with less complex provisions which will be easier to enforce and administer.

MEASURING PERFORMANCE

Recommendation

The Plan should develop improved indicators to measure and report on its performance.

Current Status

The Plan has commenced reporting additional performance results in its monthly statistical reports. There are also projects underway to make new management information available that could be used to evaluate the Plan's performance. One such project is the automation of the administration and reporting of the Plan's litigation activities. When completed, this project will permit the Plan to better understand and evaluate the results of court-based enforcement and litigation.

4.00

MINISTRY OF COMMUNITY AND SOCIAL SERVICES - CHILD WELFARE SERVICES - SECTION 3.02

BACKGROUND

The Ministry of Community and Social Services provides funding to 54 children's aid societies for the care and protection of children. The functions of the societies include:

- temporary or permanent guardianship for children separated from their parents;
- counselling services for children or families;
- protection of children from physical/emotional abuse or neglect; and
- alternative care for children such as foster care, group homes, institutions or adoption.

Our 1994 audit assessed the Ministry's procedures for monitoring children's aid societies to determine the extent to which: legislative requirements and ministry policies and procedures were complied with; and achievement of program objectives and operational effectiveness in delivering services were measured and reported.

We found weaknesses in compliance with established policies and procedures and in the measuring and reporting of program effectiveness, and made a number of recommendations for improvement.

CURRENT STATUS OF RECOMMENDATIONS

The Ministry has taken some action on all our recommendations made in 1994. Recommendations relating to the following areas have been substantially implemented:

- Analyzing Residential Placement Needs;
- Policies for Foster Care Providers;
- Accreditation Process for Children's Aid Societies; and
- Accounting for Municipal Sharing of Child Welfare Service Costs.

However, progress in implementing our recommendations in the following areas has been slow and in some cases must now await the Ministry's restructuring and the implementation of its Business Plan published in May 1996.

POLICY FRAMEWORK

Recommendation

The Ministry should develop a specific plan of action, with target dates, for the implementation of the policy directions stated in the Policy Framework.

Current Status

In 1995 the Ministry approved a specific plan of action for implementing the key directions in the *Children's Services Policy Framework* and set implementation milestones.

Many aspects of the *Children's Services Policy Framework* are expected to be implemented by April 1997 including any changes to be made according to the Ministry's Business Plan.

MANDATE

Recommendation

The Ministry should ensure that all the responsibilities of children's aid societies outlined in Section 15(3) of the Child and Family Services Act are consistently carried out, especially since the Ministry's thrust is towards prevention and early intervention.

Current Status

The Ministry is supporting the implementation of best practices by developing resource manuals. A manual dealing with young offenders has been issued. Three others dealing with prevention, chronic behaviour disorders and services for children at risk of abuse, are in various stages of drafting and are expected to be released in the fall of 1996.

OUTSIDE PAID INSTITUTIONS

Recommendation

The Ministry should, in consultation with the children's aid societies, consider implementing procedures for periodic evaluations of Outside Paid Institutions to verify that children are being properly cared for.

Current Status

The Ministry affirmed that the children's aid societies are responsible for the quality of care of children in residential settings. As the Ministry's Business Plan is developed further, it will require mechanisms to be put in place for evaluating the service effectiveness of residential placements.

SERVICE PLANNING

Recommendations

To facilitate the funding decisions called for by the Policy Framework, the Ministry should review the usefulness of the present service planning system as a timely funding, monitoring and evaluation process.

The Ministry should also ensure that financial information is received and reconciled on a timely basis.

Current Status

New service contracts which will include revised methods of funding, reporting requirements and evaluation processes are to be used starting in the 1997/98 fiscal year.

4.00

MINISTRY OF COMMUNITY AND SOCIAL SERVICES - MUNICIPAL ALLOWANCES AND BENEFITS - SECTION 3.03

BACKGROUND

The Municipal Allowances and Benefits Program (commonly known as General Welfare Assistance) is governed by the *General Welfare Assistance Act* and is intended to provide short-term financial assistance for a basic standard of living to individuals who are unable to provide for themselves. The Program is administered and delivered by approximately 350 municipalities and First Nations.

Our audit assessed the Ministry's procedures for monitoring the operations of municipalities to determine: compliance with the *General Welfare Assistance Act* and Regulations and ministry policies and guidelines; and the operational effectiveness of the municipal administration of the Program.

In our 1994 audit we found that the Ministry's procedures for monitoring the operations of municipalities required strengthening and better coordination, in order to ensure compliance with various legislated and policy requirements and to improve the operational effectiveness of municipal administration of the Program.

CURRENT STATUS OF RECOMMENDATIONS

The Ministry has taken some action on all of our recommendations made in 1994 and has substantially implemented recommendations relating to the following areas:

- Review of Claim Forms and Case Files;
- Review and Monitoring of Overpayments; and
- Sharing Information to Reduce Abuse in the System.

However, progress in implementing our recommendations in the following areas has been slow and must now await the Ministry's restructuring and the implementation of its Business Plan published in May 1996.

ADMINISTRATION COSTS

Recommendations

The Ministry should review and approve municipal budgets for GWA-related administration costs to determine whether allotted funds are distributed equitably to all municipalities.

The Ministry should develop consistent standards for review and analysis of municipal costs of administration.

The Ministry should regularly review statistical information to identify unusual fluctuations or variances for follow-up and corrective action as necessary and should identify and communicate "best practices" to all welfare administrators.

Current Status

Preliminary indicators for administration costs have been identified by the Social Assistance Programs Branch and are now being developed. Once developed, these indicators will be analyzed and monitored to identify unusual trends. Corrective action will be taken where necessary and best practices will be shared. A revised and detailed approval package is being developed and communicated to area offices for implementation in early 1997.

EFFECTIVENESS MEASURES

Recommendation

The Ministry should consider setting standards, taking into account studies already conducted, to assess the effectiveness of program delivery and communicate these to the area offices to help ensure consistent treatment of recipients across the province.

Current Status

Monitoring principles, objectives and standards have been developed by the Social Assistance Programs Branch and the area offices, and are included in the Monitoring Resource Guide which was implemented in area offices in the spring of 1995.

Consistency in program delivery and the treatment of recipients will be introduced by the Branch and the Program Management Division, through corporate reviews of area office work plans, monitoring roll-up activity forms and ongoing quarterly meetings with area offices.

EMPLOYMENT EFFORTS

Recommendation

The Ministry should regularly gather detailed operational information related to costs and savings to enable it to measure, report and evaluate the effectiveness of the Supports to Employment Program (STEP).

Current Status

A full evaluation of STEP has been postponed until:

- the full impact of the STEP changes in January 1996 have been realized and can be evaluated; and
- government plans regarding its new Ontario Works Program are implemented and the impact on STEP can be evaluated.

4.00

MINISTRY OF COMMUNITY AND SOCIAL SERVICES - VIOLENCE AGAINST WOMEN - SECTION 3.04

BACKGROUND

The Ministry of Community and Social Services' Violence against Women Program contributes to the government's wife and sexual assault prevention initiatives. The Program is administered under the legislative authority of the *Ministry of Community and Social Services Act* and the *General Welfare Assistance Act*. The objectives of the Program are to provide:

- emergency accommodation in community-based shelters for abused women and their children as well as residential support services such as child care, crisis telephone lines, counselling and emergency transportation; and
- community-based counselling and outreach.

Our 1994 audit assessed the Ministry's accountability mechanisms in place to determine: whether the shelters and community counselling agencies delivering the Program were in compliance with legal agreements and ministry requirements; and whether there were procedures to measure and report on the effectiveness of the Program.

In general, we found the Ministry needed to develop additional accountability mechanisms to monitor the performance of shelters and agencies.

CURRENT STATUS OF RECOMMENDATIONS

The Ministry has taken some action on all our recommendations made in 1994. The recommendations relating to the following area have been substantially implemented:

- Information Requirements Specific to the Program.

However, with respect to our other recommendations, the status of actions taken is as follows.

PROGRAM STANDARDS

Recommendations

The Ministry should develop standards and guidelines for delivery of its Violence against Women Program. In doing so, the Ministry should consider standards and guidelines already established for similar programs in municipalities and other Canadian jurisdictions.

Once standards and guidelines have been developed, the Ministry should monitor the performance of shelters and agencies against these standards on a regular basis. Any concerns identified should be followed up and corrective action taken as needed.

Current Status

The Ministry has identified the outcomes and measurement indicators that it expects the service providers to report on. During the 1996/97 fiscal year, the Ministry expects to develop service standards and guidelines to support the achievement of the desired outcomes, and to provide training for the service providers on these matters.

FIELD VISITS

Recommendations

The Ministry should develop uniform standards for the conduct of field visits by program supervisors to shelters and agencies. These standards should include the frequency and scope of the reviews and take into account work performed by external auditors.

The Ministry should ensure that field visits are documented so that concerns noted during the visits can be followed up and to make sure that corrective action, where needed, has been taken. These visits should also be coordinated with the municipalities whenever possible to avoid duplication.

Current Status

The Ministry is finalizing a governance policy as part of the overall accountability framework which will clarify roles and responsibilities.

Agency training on governance, including delineation of roles of the different parties, is expected to take place in 1996.

MINISTRY OF EDUCATION AND TRAINING - JOBS ONTARIO TRAINING PROGRAM - SECTION 3.05

BACKGROUND

The jobsOntario Training Program commenced in 1992 as a multi-year \$1.1 billion skills development and employment program and was intended to create up to 100,000 private sector jobs by March 1995. Jobs would be provided for social assistance recipients and those who had been unemployed for a long time and were ineligible for, or had exhausted, their unemployment insurance benefits. The Program was extended to March 31, 1996 by the previous government.

In 1994 we assessed whether the Ministry had established processes to manage the Program cost effectively. Although the Ministry had established several sound management practices and processes, we made recommendations to:

- refine efforts to assess the Program's effectiveness; and

-
- further strengthen the effectiveness and management processes of the Ministry's network of community-based program deliverers.

CURRENT STATUS OF RECOMMENDATIONS

On July 21, 1995 the new government released the *Ontario Fiscal Overview and Spending Cuts* document which included an announcement that the Program was being cancelled, but existing commitments to participants would be honoured. These commitments are estimated to be \$30 million in the 1996/97 fiscal year. All obligations and wind-down activities are to be completed by April 1997.

4.00

MINISTRY OF ENVIRONMENT AND ENERGY - WATER AND SEWAGE TREATMENT FACILITIES - SECTION 3.06

BACKGROUND

The Ministry is responsible for ensuring that drinking water and sewage effluent processed by sewage treatment plants meet established health and environmental guidelines. Also, the Ministry uses various funding arrangements to assist municipalities across the province with capital projects in water and sewage treatment plants.

In 1994 we assessed whether the treatment of water and sewage met the Ministry's guidelines for protecting public health and the environment and whether provincial funding for water and sewage projects was properly approved and spent for the intended purposes.

We found serious weaknesses in established procedures and made several recommendations for improvement.

CURRENT STATUS OF RECOMMENDATIONS

The Ministry has taken action on all our recommendations made in 1994. Recommendations relating to the following areas have been substantially implemented:

- Risk Assessment for Inspection Program;
- Guidelines for Project Costs; and
- Awarding Contracts for Construction and Consulting Engineers.

However, because of the long-term nature or strategic significance of our other recommendations, action is ongoing in these areas as explained further below.

DRINKING WATER SURVEILLANCE PROGRAM

Recommendation

Plants having significant compliance problems should be brought into the Drinking Water Surveillance Program as quickly as is practical.

Current Status

The Drinking Water Surveillance Program was established in 1986 to monitor drinking water quality and to provide reliable and current information. As of December 31, 1993, the Program covered 120 of 490 water treatment plants serving about seven million or 70% of Ontario's population. The Ministry had planned to extend the Program to about 15 new plants every year. However, citing resource constraints, the Ministry has added only 13 plants since 1994. The Ministry is currently reviewing the Program and is placing more emphasis on plants with the highest risk.

QUALITY OF SEWAGE EFFLUENT

Recommendation

The Ministry should strengthen its enforcement efforts, including the issuance of control orders, to ensure that treatment plants with compliance problems take timely corrective action.

Current Status

To strengthen its enforcement efforts, the Ministry has rewritten the Compliance Guideline and has trained all Environmental Officers in its application. In addition, since 1995 Environmental Officers have been appointed as "Directors" under the *Ontario Water Resources Act*. Such appointments empower the Officers to issue orders requiring operators of sewage and water treatment plants to take action to achieve compliance within a specified time frame.

DISCHARGE OF UNTREATED SEWAGE

Recommendation

The Ministry should ensure that sewage treatment plants report the quantity and quality of all bypasses. It should also assess the seriousness of bypassing problems at individual plants and work with plants that have serious bypassing problems to determine the most appropriate remedial action.

Current Status

Sewage treatment plants operating under newer Certificates of Approval are required to monitor and report on the quantity and quality of bypasses. Currently, the government is reviewing sewage treatment plant regulations. In the meantime, an interim strategy is being formulated for implementation later this year requiring all operating authorities to monitor and report on the occurrence and characteristics of bypasses. In addition, operating authorities are completing environmental studies funded by the province to identify long-term solutions to these problems.

EXTRANEOUS FLOWS ENTERING THE SEWAGE SYSTEM

Recommendation

The Ministry should work with municipalities and the Ontario Clean Water Agency to determine the most appropriate remedial action for sewage treatment collection systems and plants that are experiencing serious problems with extraneous flows. Such actions should include rehabilitation and enforcement of municipal bylaws.

Current Status

As part of the Ministry's inspection program, inspection staff are now required to work with operating authorities to identify extraneous flow problems and recommend corrective actions. The Ministry also funds studies for identifying solutions to extraneous flow problems. Provincial funding for capital projects is contingent on these problems being addressed. A Ministry-developed sewer-use bylaw model, which prohibits the discharge of uncontaminated water into sanitary or combined sewer systems, has now been adopted by municipalities serving about 80% of the provincial population.

SLUDGE MANAGEMENT

Recommendation

The Ministry should identify sewage treatment plants that have serious problems with sludge management. Where problems are identified, timely corrective actions, such as sludge storage expansion, better monitoring devices and improved operator training, should be taken.

Current Status

When effluent quality is adversely affected, the Ministry works with operating authorities to ensure that sludge management problems are properly resolved. Operators are now required to be certified through formal training and to make process control adjustments when faced with sludge management problems.

PREVENTIVE MAINTENANCE

Recommendation

The Ministry should work with municipalities and the Ontario Clean Water Agency to implement regular preventive maintenance programs for all water and sewage treatment plants.

Current Status

Preventive maintenance is now the responsibility of all water and sewage treatment plant operators. To encourage better preventive maintenance, ministry funding is made available to plants for conducting optimization studies. In addition, the Ministry's inspection program requires inspection staff to identify weaknesses in calibration of flow-measuring devices and to advise operating authorities. The new Certificates of Approval now require flow-monitoring devices to be calibrated at regular intervals. Also, the Ontario Clean Water Agency — the operator of more than 300 water and sewage treatment plants in Ontario — is implementing an environmental management system which includes a comprehensive maintenance program for its plants.

PROJECTS TO EXPAND TREATMENT CAPACITY

Recommendation

The provincial government should tighten the Municipal Assistance Program guidelines to ensure that municipalities not only review water conservation and system optimization measures, but also implement any applicable measures before expansion projects can be approved for provincial funding.

Current Status

No new applications for expansion projects have been accepted by the Municipal Assistance Program since our audit in 1994. The Ministry is reviewing program funding and is developing new guidelines for the approval of expansion projects.

MINISTRY OF HEALTH - COMMUNITY HEALTH PROGRAMS - SECTION 3.07

BACKGROUND

The Community Health Branch of the Ministry of Health is primarily responsible for the administration of the Community Health Centre (CHC) program, the Health Service Organization (HSO) program and the Comprehensive Health Organization (CHO) program.

In 1994 we assessed whether the CHC and HSO programs were managed with due regard for economy and efficiency and whether the effectiveness of these programs was measured and reported. We also reviewed progress in the development of the CHO program.

CURRENT STATUS OF RECOMMENDATIONS

COMMUNITY HEALTH CENTRES

Community Health Centres provide various combinations of primary care as well as other health, educational and social services to designated groups within a given area. CHCs are not-for-profit organizations under the direction of community-based boards of directors. They are funded by the Ministry on the basis of operating and capital budget submissions.

The Ministry has commenced action on all of the recommendations that we made in our 1994 report. Workplans and timelines have been developed to address our recommendations in the following areas:

- Evaluation of Program Effectiveness before Program Expansion;
- Monitoring Eligibility for Services;
- Development of Information System;
- Needs Analysis Process for New Centres; and
- Managing Capital Assets.

The recommendations in these areas are expected to be substantially implemented during the 1996/97 fiscal year.

HEALTH SERVICE ORGANIZATIONS

The overall goal of the Health Service Organization program is to ensure accessible, flexible, coordinated, high-quality primary care, emphasizing health promotion and disease prevention and using a cost-effective service delivery model that offers alternatives to institutional care whenever appropriate.

The Community Health Branch funds HSOs through monthly payments determined by multiplying the number of patients on their rosters by an agreed-upon per capita rate, adjusted for the age and sex of individual patients.

The Ministry has taken action on all of the recommendations that were made in our 1994 report. Our recommendations on roster maintenance have been substantially implemented. Workplans and timelines have been developed, and work is in process to address our recommendations in the following areas:

- Investigating Feasibility of System to Measure and Report on Program Effectiveness; and
- Implementation of New Information Technology System.

The recommendations in these areas are expected to be substantially implemented during the 1996/97 fiscal year.

4.00

MINISTRY OF HEALTH - GRANTS TO PUBLIC HOSPITALS - SECTION 3.08

BACKGROUND

The Hospitals and Related Facilities activity of the Ministry's Institutional Health Program is responsible for the operational and capital funding of public hospitals. The *Public Hospitals Act* governs and regulates the operations of public hospitals in Ontario. The *Health Insurance Act* allows for the funding of the approved services provided by the hospitals.

In 1994 we assessed the adequacy of the procedures used by the Ministry to obtain reasonable assurance that value for money was being obtained for the grants provided to public hospitals.

CURRENT STATUS OF RECOMMENDATIONS

The *Savings and Restructuring Act*, which was passed in January 1996, contained amendments to the *Public Hospitals Act*. The Ministry has had to take these amendments into consideration when addressing certain recommendations made in our 1994 report.

The Ministry has commenced action on all of the recommendations in our 1994 report. Recommendations relating to the following areas have been substantially implemented: Use of Hospital Accreditation Reports; Approving Bed Closures; Monitoring and Following up Public Complaints; Addressing Limitations of the Equity Funding Process; Review of Hospital Reports; Control over Capital Grants and Loans; and the Ministry's Audit Branch Priorities.

Our recommendations in the following areas are expected to be substantially implemented during the 1996/97 fiscal year:

- Compliance with Accountability Directive;
- Strategic Directions for District Health Councils;
- Use of Surplus Hospital Funding; and
- Clarification of the Relationship between Hospital Foundation Funds and Hospital Funding.

MINISTRY OF MUNICIPAL AFFAIRS AND HOUSING - RENT REGULATION PROGRAM - SECTION 3.09

BACKGROUND

The Ministry's Rent Control Operations administers the *Rent Control Act*, which is intended to protect tenants from excessive rent increases and to preserve and maintain adequate rental housing in Ontario. It also assists municipalities to administer the *Rental Housing Protection Act*, which regulates conversions and demolition of rental accommodations as well as major renovations and repairs.

In 1994 we assessed whether procedures and controls were satisfactory to ensure that the Rent Regulation Program was delivered cost effectively and in accordance with the *Rent Control Act*. We also assessed whether there were satisfactory procedures to measure and report on the effectiveness of the Program. Our recommendations proposed that the Ministry should:

- improve the timeliness and cost effectiveness of application processing and consider less costly methods of resolving claims;
- carry out evaluations of the effectiveness of the Program in meeting legislated objectives and in assessing its impact on other housing assistance programs; and
- strengthen action to ensure that the province's stock of rental housing is adequately maintained.

CURRENT STATUS OF RECOMMENDATIONS

The Ministry has substantially implemented our recommendations to improve the timeliness and efficiency of application processing. Performance indicators and targets have been established and the number of outstanding applications has been greatly reduced. Less costly methods of resolving claims are being pilot tested.

The *Rent Control Act* and other related legislation are under review by the Government. Program effectiveness is being examined in terms of its impact on new rental housing supply as well as on other housing policies. Options for protecting tenants and enforcing maintenance standards are also being examined. We believe that our recommendations will be considered in the current review of the legislation and policy options.

MINISTRY OF NATURAL RESOURCES - FOREST MANAGEMENT - SECTION 3.10

BACKGROUND

The goal of the Ministry's Forest Management Program is to contribute to the sustainable development of natural resources in order to ensure the continued availability of the province's forests, while protecting wildlife, conserving the soil and preserving natural biological features of provincial significance.

In 1994 we assessed whether provincial forests were managed with due regard for economy, efficiency and operational effectiveness and whether the Ministry's performance was regularly monitored and evaluated. Our recommendations focused on silvicultural funding, forest harvesting, silvicultural activities and the nurseries and tree seedling acquisition program.

CURRENT STATUS OF RECOMMENDATIONS

The Ministry has taken action to address all of our 1994 recommendations. The most significant change is new legislation that shifts more of the responsibility for forest management to industry participants. The Ministry's actions to date are as follows:

SILVICULTURAL FUNDING

We made several recommendations to the Ministry regarding silvicultural funding including work planning and priority setting.

The *Crown Forest Sustainability Act*, passed in 1995, requires all forest operation plans to be prepared in accordance with the Ministry's *Forest Management Planning Manual*. The manual is in draft format and is expected to be approved in the 1996/97 fiscal year.

The Ministry is phasing out the direct funding of silvicultural programs. Trust funds and special purpose accounts were initiated in the 1994/95 fiscal year to provide funding to regenerate forests in accordance with approved forest management objectives. The need for special purpose accounts will cease when the transfer of forest renewal responsibilities to the forest industry is completed in 1998.

HARVESTING

With respect to forest harvesting, the Ministry has substantially implemented our 1994 recommendations regarding the province's forest resources inventory and the reporting of surpluses (uncut timber).

Operational standards for forestry programs including harvesting are addressed in the new manuals specified in the *Crown Forest Sustainability Act*. Compliance with these standards will be assured through the policies and procedures developed by the Ministry in 1995.

SILVICULTURAL ACTIVITIES

We also made several recommendations regarding silvicultural activities related to work standards, site monitoring, effective regeneration and free-to-grow assessments. These recommendations have been addressed by the new *Crown Forest Sustainability Act*. The Act requires silvicultural activities to be carried out in accordance with the Ministry's new *Forest Operations and Silviculture Manual* and the draft *Forest Management Planning Manual*.

NURSERIES AND TREE SEEDLING ACQUISITION PROGRAM

The Ministry has substantially implemented our 1994 recommendations to review the nursery costing system, assess the need for six nurseries, re-examine capital asset acquisition policies, and review the merits of a contract to purchase seedlings.

OTHER MATTER - ACCOUNTING AND ACCOUNTS PAYABLE SYSTEM

We reported a number of implementation problems related to a new computerized supplier payments system. The system has been in operation for over three years and the problems experienced during implementation have now been addressed.

MINISTRY OF THE SOLICITOR GENERAL AND CORRECTIONAL SERVICES - ONTARIO PROVINCIAL POLICE - SECTION 3.11

BACKGROUND

The Ontario Provincial Police (OPP) are responsible for policing certain highways and parts of the province which do not have their own police agencies. The OPP may also be directed by the Solicitor General to undertake policing responsibilities normally done by a municipal force, or to provide assistance to a municipal police service. In 1994 we assessed whether the OPP had satisfactory procedures to measure and report on its effectiveness and whether various operations were carried out economically and efficiently.

We recommended improvements in community policing and traffic management reporting; and that action be taken to enable uniformed staff to spend more time on pro-active policing. We also recommended that the Ministry ensure the more equitable administration and financing of municipal police services provided by the OPP.

CURRENT STATUS OF RECOMMENDATIONS

The OPP has taken action on the nine recommendations made in our 1994 Report. Recommendations relating to the following areas have been substantially implemented:

- Procedures to Monitor and Control Absenteeism;
- Efficiency of Report Writing;
- Timing of Vehicle Purchases; and
- Assessing the Use of Civilians.

Because our other recommendations involve a longer period of time for implementation, action is ongoing as explained further below.

COMMUNITY POLICING

Recommendation

To improve effectiveness reporting, the OPP should require detachments to conduct more comprehensive analyses of community problems and more thorough evaluations of actions carried out to address them.

Current Status

In October 1995 the OPP established the Community Policing Development Centre to address this issue. A strategic plan is anticipated to be implemented later this year, after input and feedback from the regions are incorporated.

TRAFFIC MANAGEMENT

Recommendation

The OPP should ensure that detachment traffic management plans are based on a comprehensive analysis of traffic problems, consistent with OPP expectations for community policing, and that effectiveness in identifying and resolving traffic problems is reported to and monitored by senior management.

Current Status

The OPP has developed a new traffic management planning process with input from detachment commanders. The new planning process is to be implemented by early 1997.

HUMAN RESOURCE MANAGEMENT

Recommendation

The Ministry should implement accepted recommendations from recent police recruiting and training studies to ensure the OPP's current major recruitment initiatives are effective.

Current Status

The Ministry had been pilot testing the selection system recommended by the *Constable Selection Project* in the actual hiring of constables with a number of municipal police services during 1995. Based on the pilot results, the proposed selection system and specific testing tools are being refined. A provincial strategy, with input from the policing community, the private sector and the Ministry, is to be implemented later this year.

STAFF DEPLOYMENT MODEL

Recommendation

To ensure that resources are equitably distributed among detachments, the OPP should: assess the impact of false alarms on the workload of the staff concerned and, if necessary, revise the model accordingly; and use increased retirement and recruiting activity to correct any remaining staffing inequities among detachments.

Current Status

The OPP has established an alarm response procedure to register and track false alarms. The proposed response procedure, which is designed to have alarm owners ensure the reliability of their alarm systems, has been approved and is expected to be in place by the end of 1996. With the implementation of the new response procedure, the OPP estimates that it can achieve savings of over 9,000 person-hours based on an anticipated 30% reduction in the number of false alarms.

The OPP has also adopted a "Detachment Right-Size Implementation Guide," which includes a detailed list of criteria and worksheets, to assist management in adjusting staff levels and identifying opportunities to increase efficiency and effectiveness.

MINISTRY OF TRANSPORTATION - DRIVER LICENSING AND CONTROL - SECTION 3.12

BACKGROUND

The Ministry is responsible for driver licensing and control under the authority of the *Highway Traffic Act* and Regulations. These responsibilities include administering driver qualification tests, maintaining licensing records, and developing and administering driver improvement and control activities.

Our 1994 audit of the program assessed and reported on compliance with legislation, operational efficiency, procedures to measure and report on program effectiveness, revenue collection procedures, and the security and controls over driver information systems.

CURRENT STATUS OF RECOMMENDATIONS

The Ministry has taken some action on all of our 1994 recommendations and is in the process of implementing a number of changes to address our concerns. To date the Ministry's actions and proposed plans are as follows.

COMPLIANCE WITH LEGISLATION

We recommended that the Ministry take a number of steps to avoid having multiple drivers' licences issued to one person. The Ministry has implemented a one-piece driver's licence which has been issued to approximately 1.5 million people. It is expected that all Ontario drivers will have been converted to the new one-piece licence by the year 2000. The Ministry has also created master records for novice drivers, trained additional staff to investigate and combine the records of drivers with multiple licences, and is developing a Client Basic Information Database which is expected to be completed by the end of 1997.

OPERATIONAL EFFICIENCY

We noted that customer service was judged to be less than satisfactory by the Ministry. To improve customer service the Ministry completed the roll-out of 60 self-serve kiosks to enable customers to complete transactions using a credit card. The Ministry has also expanded the transactions available through the private issuing network.

As well we noted that there was a backlog of medical reviews. These reviews are performed to ensure minimum standards of medical fitness for drivers. To address this backlog, the Ministry provided additional training to staff, revised job specifications and implemented a new organizational structure. However, proposed systems enhancements require computer hardware upgrades to proceed and the funding requested to increase staffing levels was not approved. The setting of performance standards is also on hold pending the acquisition of automated workload measuring tools.

MEASUREMENT AND REPORTING OF OPERATIONAL EFFECTIVENESS

We recommended that the Ministry should address the deficiencies found in its driver performance monitoring and intervention methods. To address the deficiencies noted, the Ministry has taken a number of initiatives aimed at specific types of drivers and will generate reports to monitor the effectiveness of the initiatives.

REVENUE COLLECTION PROCEDURES

We recommended that the Ministry undertake a cost-benefit analysis of automating the collection process for non-licence renewal revenue (\$33 million in 1993), and also develop appropriate controls for revenue adjustments. The Ministry reported that controls had been enhanced and further revenue automation had taken place. However, revenues totalling \$8.8 million are still manually recorded. This amount is expected to be reduced to \$3 million by the end of the 1996/97 fiscal year.

SECURITY AND CONTROL OVER DRIVER INFORMATION SYSTEMS

We recommended that the Ministry strengthen controls to restrict on-line access to drivers' records. Subsequently, the Ministry improved manual procedures and physical security measures. However, the Ministry is still reviewing electronic access controls.

MINISTRY OF TRANSPORTATION - MUNICIPAL ROADS SUBSIDIES - SECTION 3.13

BACKGROUND

The objective of the Ministry's Municipal Roads Program was to provide for the safe and efficient movement of people and goods and to provide financial and technical assistance to municipalities for the development, maintenance and operation of the municipal roads network. Our audit assessed whether adequate procedures were in place to ensure compliance with legislation and to measure and report on the performance of the Program.

In 1994 the Program was funded pursuant to the *Public Transportation and Highway Improvement Act*. Grants to local governments were based on a number of conditions specifying the types of expenditures that were eligible for provincial funding. We recommended that the Ministry clarify the reporting of program expenditures, change the funding mechanism to ensure that funds are equitably distributed to municipalities and encourage good road management.

CURRENT STATUS OF RECOMMENDATIONS

In January 1996 the responsibility for funding municipal roads was transferred from the Ministry of Transportation to the Ministry of Municipal Affairs and Housing. The new funding arrangements are intended to remove many of the constraints which were placed on municipalities regarding the management of roads under their jurisdiction. Funds will be granted to local governments pursuant to the *Ontario Municipal Support Grants Act*, which received royal assent on January 30, 1996.

CHAPTER FIVE

Public Accounts of the Province

5.00

INTRODUCTION

The *Public Accounts* for each fiscal year ending March 31 are prepared under the direction of the Minister of Finance as required by the *Ministry of Treasury and Economics Act*. The Act requires the *Public Accounts* to be delivered to the Lieutenant-Governor in Council for presentation to the Assembly not later than the tenth day of the first session held in the following calendar year. However, the *Standing Orders of the Legislative Assembly* call for the tabling of all statutory reports within six months of the close of the reporting period unless reasons for the delay are given to the House. Accordingly, the *Public Accounts* have normally been available for tabling by September 30 of each year.

The Financial Statements of the province are the responsibility of the Government of Ontario. This responsibility encompasses ensuring the integrity and fairness of the information presented in the Statements, including the many amounts which must of necessity be based on estimates and judgment. The government is also responsible for ensuring that an established system of control and supporting procedures is maintained to provide assurance that transactions are authorized, assets are safeguarded and proper records are maintained.

The Provincial Auditor audits and expresses an opinion on the Financial Statements of the province. This opinion is intended to provide reasonable assurance that the Financial Statements are free of material misstatement. The Financial Statements, along with the Provincial Auditor's opinion on them, are provided in a separate volume of the *Public Accounts*. In addition to the Financial Statements, the *Public Accounts* include the following three supplementary volumes.

Volume 1 of the *Public Accounts* provides details of the significant transactions of the province's Consolidated Revenue Fund. It includes schedules of the Fund's revenues, expenditures, financing transactions, financial assets, liabilities and contingent liabilities. It also contains the individual statements for each government ministry.

Volume 2 contains reproductions of the audited financial statements of the most significant — in terms of size — agencies of the Crown and Crown controlled corporations. For purposes of consolidating the activities of these entities into the province's Financial Statements, they are classified as government service organizations, government enterprises, or trusts under administration. *Volume 2* also contains certain other audited and unaudited financial statements.

Volume 3 details each ministry's expenditures, such as salaries and wages, employee benefits, travelling expenses and other payments, under two main categories: Voted Appropriations and Statutory Appropriations.

The Provincial Auditor reviews the information in these three supplementary volumes for consistency with information presented in the Financial Statements.

THE PROVINCE'S 1995/96 FINANCIAL STATEMENTS

The *Audit Act* requires that in my Annual Report I report on the results of my examination of the province's Financial Statements as reported in the *Public Accounts*. I am pleased to report that my Auditor's Report to the Legislative Assembly on the Financial Statements for the fiscal year ended March 31, 1996 is clear of any qualifications or reservations and reads as follows:

To the Legislative Assembly of the Province of Ontario

I have audited the statement of financial position of the Province of Ontario as at March 31, 1996 and the statements of operations and accumulated deficit and changes in financial position for the year then ended. These financial statements are the responsibility of the Government of Ontario. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the government, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Province as at March 31, 1996 and the results of its operations and the changes in its financial position for the year then ended in accordance with accounting principles recommended for governments by The Canadian Institute of Chartered Accountants. As required by Section 12 of the Audit Act, I also report that, in my opinion, these accounting principles have been applied, in all material respects, on a basis consistent with that of the preceding year.

Toronto, Ontario
September 16, 1996



Erik Peters, FCA
Provincial Auditor

PUBLIC SECTOR ACCOUNTING AND AUDITING BOARD

This is the third consecutive year that the Financial Statements have been prepared in accordance with accounting principles recommended for governments by the Public Sector Accounting and Auditing Board (PSAAB) of the Canadian Institute of Chartered Accountants (CICA).

PSAAB was established in 1981 by the Board of Governors of the Canadian Institute of Chartered Accountants. Its role is to improve and harmonize accounting and auditing in the public sector. In fulfilling this role, PSAAB makes recommendations to assist governments in producing financial statements based on accounting principles and practices that provide a clear and full understanding of the financial position and results of operation of the government.

PSAAB recommendations are contained in the CICA's *Public Sector Accounting and Auditing Handbook*. They represent the consensus of senior government financial officials, legislative auditors and other experts in public sector accounting across Canada on minimum requirements for financial statement accounting and reporting practices for governments.

KEY FEATURES OF THE PSAAB BASIS OF ACCOUNTING

The PSAAB basis of accounting has the following significant features:

- 1) **Accrual accounting:** Revenues and expenditures are accrued or recorded in the period in which the revenues have been earned or the expenditures incurred, regardless of whether or not such transactions have been settled by the receipt or payment of cash.
- 2) **Consolidation of Crown agencies and corporations with the Consolidated Revenue Fund:** Many government programs and operational activities are delivered by Crown agencies and corporations instead of directly by government ministries or departments, which are accounted for in the Consolidated Revenue Fund. Based on the nature of their activities, Crown agencies owned or controlled by the government are consolidated as either service organizations or as government business enterprises with the Consolidated Revenue Fund to form the government reporting entity in the Financial Statements.

Specifically, government service organizations are those such as the Ontario Educational Communications Authority (TV Ontario) which obtain most of their revenue from government ministries and their accounts are consolidated in the Financial Statements on a line-by-line basis. Government business enterprises are those such as the Ontario Lottery Corporation and the Liquor Control Board of Ontario which obtain most of their revenue from the sale of goods or services to individuals or non-Ontario-government organizations. While they are not consolidated on a line-by-line basis, the total net assets and total net income (loss) for the year of all business enterprises are included in the Financial Statements to the extent of the province's equity in them.

There are also a number of trust funds which the province administers on behalf of other parties. As recommended under PSAAB, these trust funds are excluded from the Financial Statements but the details are disclosed in an accompanying note to the Statements.

Because of their unique nature and size, further discussion is warranted of the treatment in the audited Financial Statements of two of the largest agencies of the province: the Workers' Compensation Board and Ontario Hydro. Under the *Workers' Compensation Act*, funding of the Board's liabilities, including its large unfunded workers' benefits liability, is a future financial obligation of private-sector employers and not of the province. The Board has therefore been classified as a trust fund and details are provided in a note to the Statements. By virtue of the *Power Corporation Act*, Ontario Hydro's earnings and net assets (equity) are neither intended nor available for distribution to the province. Accordingly, neither Hydro's net assets nor the results of its operations are included in the Financial Statements, but details of certain aspects of Hydro's operations are disclosed in the notes.

PSAAB INITIATIVES AFFECTING FUTURE YEARS

PSAAB attempts to foster improved financial and performance information by continuously improving its existing recommendations and by developing new recommendations to deal with emerging accounting and auditing issues. There are several PSAAB projects at varying stages of completion. Two projects in particular warrant discussion because of the significant implications they have for the future preparation and presentation of the province's Financial Statements.

Firstly, in June 1996 PSAAB issued a new set of recommendations on the government reporting entity to take effect in the 1996/97 fiscal year. The main change relates to the criteria for designating an entity as a government business enterprise as opposed to a government service organization. The current recommendations require an organization's primary revenue source to be from non-Ontario-government sources to qualify as an enterprise; however, the future recommendations require an organization to be virtually self-sustaining, that is, it cannot require subsidization from the province. Under this new rule several Ontario agencies that are currently classified as business enterprises will likely require reclassification as service organizations. Under current PSAAB rules, the province's equity in the assets including capital assets of business enterprises are considered assets of the province, but those of service organizations are not. Accordingly, the implementation of this recommendation will likely involve the future reclassification of certain agencies as service organizations and could require significant write-off of their capital assets to the province's deficit or accumulated deficit.

Secondly, and related to the above, PSAAB has drafted for public comment a new set of recommendations dealing with all government tangible capital assets. Current practice in Canadian governments, including Ontario, is to expense the full cost of a capital asset in the year of purchase or construction. In contrast to this approach, generally accepted practice in the private sector and government business enterprises is to record an investment in physical capital as an asset and amortize this investment with an annual charge to operations over the asset's expected useful life.

PSAAB's proposed recommendations would for the first time define government capital assets and set out rules for their recognition, measurement, amortization and presentation. Assuming the appropriate cost-effective business practices, systems and procedures are in place to manage, control and account for these assets, it is my view that the value of the Financial Statements for both decision makers and stakeholders would be enhanced by appropriately reflecting in the Statements the government's tangible capital assets and the amortization of these assets

over their useful lives as an operating expense. PSAAB's proposed recommendations are intended to be finalized in 1997 and, as presently drafted for public comment, include transition procedures and certain disclosure options.

COMPARING ACTUAL RESULTS TO BUDGETED RESULTS

Historically, the government presents a *Budget* each year, usually in the spring. The *Budget* is an annual financial plan which outlines in general terms the government's fiscal plan for the forthcoming year along with details of expected revenues and planned expenditures.

Very few government documents have the potential to affect the lives of Ontarians more profoundly than the *Budget*. As well, most of the key financial decisions made by the legislators are based on the financial information contained in the *Budget*. It is also used by the government as a management tool for both planning and control. The *Budget* should also serve as the cornerstone of the Legislature's ability to hold the government accountable for its fiscal management by enabling a realistic comparison between actual and planned financial performance.

PSAAB also recognizes the importance of this comparison, as it specifically recommends that a government's fiscal plan be prepared on the same accounting basis as that used to report actual results in its Financial Statements. In previous years the province did not comply with this key PSAAB recommendation. The *Budget* detailed only the expected financial transactions and results for the Consolidated Revenue Fund, using a modified cash basis of accounting. Since the Financial Statements under PSAAB rules are prepared using accrual and consolidation accounting, it was extremely difficult to compare the actual audited financial results against the planned results as set out in the *Budget*.

While the Financial Statements included a schedule reconciling the audited deficit determined on the PSAAB basis of accounting with the budgeted deficit as prepared using a "budget" basis of accounting, I expressed concern in both my 1994 and 1995 *Annual Reports* that an inappropriate basis of accounting had been applied in those *Budgets*. Specifically, significant capital grants channeled through the new Ontario capital corporations had been treated as loans and not as expenditures. Secondly, large internal transfers of government properties to one of these corporations had been recorded as "sales" revenue to the government. As well, proceeds from borrowings by a Crown agency had been recorded as revenues in the *Budget*. All of these practices, discontinued beginning with the 1996 *Budget* as outlined below, had the effect of artificially reducing the government's reported deficit under the *Budget* basis of accounting. In both *Annual Reports* I had commented on these inappropriate accounting practices and included an analysis of what the actual budget-basis deficit should have been had the appropriate basis of accounting been applied.

To eliminate the ongoing confusion these reporting practices have created, and help restore credibility to the financial affairs of the government, I have been advocating the adoption of the PSAAB basis of accounting for the *Budget* since 1993. On February 6, 1995 I appeared before the Standing Committee on Finance and Economic Affairs to reiterate my concerns and urged that the same basis of accounting and financial discipline used in the province's Financial Statements also be used in the *Budget*.

I was pleased that my position on this issue was agreed to by the Minister of Finance in July 1995 and subsequently by the Ontario Financial Review Commission. In its report to the Minister of Finance in early November 1995 the Commission recommended "that government adopt PSAAB standards for the *Budget*, related spending authority and updates on the fiscal situation." Shortly after receiving the Commission's recommendations, the government announced that this was one of the recommendations which would be implemented immediately. The government's commitment was confirmed in late November 1995 with the release of its 1995 Fiscal and Economic Statement wherein its 1995/96 Financial Plan was prepared using the PSAAB basis of accounting. The 1996 *Budget*, released in May 1996 and covering the 1996/97 fiscal year, was also prepared using PSAAB accounting rules.

I believe the government's decision to use the same basis of accounting and financial discipline for preparing the *Budget* and the Financial Statements is a significant step toward improving financial accountability. Specifically, the Legislature's ability to make the difficult financial and program decisions needed to cope with the debt and the deficit and to assess how closely the government is meeting its fiscal targets depends on reliable, complete and appropriate financial information. With the adoption of the PSAAB basis of accounting in both the Financial Statements and the *Budget*, the Legislature will have a much clearer and complete picture of the government's overall fiscal plan and be able to more readily compare the subsequent actual financial results to that plan.

In addition to its recommendation to adopt PSAAB standards for the *Budget*, the Commission made 14 recommendations dealing with other financial reporting and accounting issues. Based on the government's response to these 15 recommendations as outlined in the 1996 *Budget*, I am pleased to report that eight recommendations have been implemented and the other seven are in the process of being implemented.

IMPROVED FINANCIAL INFORMATION FOR LEGISLATORS

The mission of the Office of the Provincial Auditor is to assist the Legislature in holding the government and its administrators accountable for the quality of the administration's stewardship of public funds and for the achievement of value for money in government operations. One of my Office's key goals has been to assist the Legislature in this regard by encouraging improved financial information for decision making.

SIGNIFICANT PROGRESS HAS BEEN MADE

The following chart provides an overview of the more significant concerns, relating to the reliability, appropriateness and completeness of financial information provided to legislators, that I have reported on since my appointment as Provincial Auditor effective January 1, 1993. The chart also outlines the related recommendations made to address these areas. And finally, the chart outlines the actions taken by the government to date to address my concerns and recommendations.

I recognize that my role in improving financial information for legislators is largely persuasive in nature in that I cannot directly undertake to implement my recommendations nor compel the government or its administrators to do so. Rather, I rely on the good will of the government —

particularly that of the Ministry of Finance — and on our parliamentary process including the work done by the Standing Committee on Public Accounts to ensure that my recommendations in this area receive due consideration. As is evident from the “Action Taken” column, I believe that substantial progress has been made in a relatively short period of time in improving the quality of financial information provided to the Legislature.

Improving Financial Information for Legislators

Identified Concern	Recommendation	Action Taken
Modified cash basis of accounting permitted the flow of expenditures in such a way that expenditures were not necessarily reflected in the period in which they were incurred.	Adopt the PSAAB basis of accounting which requires accrual accounting.	PSAAB basis of accounting for financial statements implemented for the 1993/94 fiscal year.
The full extent of the government's financial affairs and resources should be reported in the Financial Statements by including all Crown agencies and corporations owned or controlled by the government.	Adopt the PSAAB basis of accounting which requires consolidation of Crown agencies and corporations owned or controlled by the government.	PSAAB basis of accounting for financial statements implemented for the 1993/94 fiscal year.
The deficit as reported in the <i>Budget</i> should not be understated by treating capital grants to transfer payment recipients as loans, recording the sale of government property from one government organization to another as revenue and recording proceeds from borrowing by a Crown agency as revenue.	Use the PSAAB accounting rules in the <i>Budget</i> as the preferred solution, but if the modified cash basis of accounting continues to be used, it should be appropriately applied.	With the use of the PSAAB accounting rules for the 1996 <i>Budget</i> , capital-grant-based loans are no longer reflected in the <i>Budget</i> as assets and this practice of loan-based financing was terminated. As well, non-arms-length asset sales are no longer considered as generating revenue and proceeds from borrowing are recorded as such.
Actual financial performance could not readily be compared to planned financial performance as different bases of accounting were used in the Financial Statements and the <i>Budget</i> .	Use the same financial discipline in the <i>Budget</i> as that achieved by adopting PSAAB rules for the Financial Statements.	The 1995 Fiscal and Economic Statement and the 1996 <i>Budget</i> both followed the PSAAB basis of accounting.

FUTURE CONSIDERATIONS

Notwithstanding the progress that has been made over the last few years, there are still challenges facing the government and areas where improvements can be made to strengthen the overall quality and effectiveness of financial management and reporting.

ANNUAL FINANCIAL REPORT

In my 1995 Annual Report section, I stressed the need for the government to produce an annual financial report that was easily understandable to its readers, both in the Legislature and the general public. The report should include or recapture in a condensed format the audited Financial Statements of the province and clearly explain the financial results achieved during the year, both in terms of revenues earned and expenditures incurred. Where there have been significant fluctuations from the prior year or from the fiscal plan as set out in the *Budget*, the reasons for such fluctuations should be disclosed. The report should also provide the reader with some indication of the state of Ontario's economy and disclose the government's financial condition at the end of the fiscal year.

In commenting on this matter in its November 1995 report to the Minister of Finance, the Ontario Financial Review Commission recommended "that government produce an annual report consisting of: financial statements similar to those currently produced as part of the Public Accounts, with the addition of a column showing the Budget Plan; and a management discussion and analysis that includes financial and economic highlights and reports on performance against the goals set in the budget and business plan at the start of the year."

The government responded to my recommendations and those of the Ontario Financial Review Commission regarding the need for an annual financial report by committing to publish such a report for the 1995/96 fiscal year. This represents a major step forward by the Ministry of Finance and it will be a challenging task for the Ministry to develop a report which will meet the needs of a diverse group of readers with different levels of financial sophistication.

SPECIFIC CONCERNS ABOUT THE QUALITY AND TIMELINESS OF FINANCIAL INFORMATION

Good decision making requires good information on which to make decisions. As such, management requires reliable financial and operational information to be provided on a timely basis. Otherwise, management has insufficient time to assess the accuracy, appropriateness and implications of the information presented.

In this regard, one of the recommendations of the Ontario Financial Review Commission was that the *Public Accounts* of the province be tabled in the Legislature earlier than the end of September, which has been the practice to date. The *Standing Orders of the Legislative Assembly* call for the tabling of all statutory reports within six months of the close of the reporting period.

I support the recommendation of the Commission for a more timely tabling of the *Public Accounts*. While the government accepted the Commission's recommendation and committed to work toward achieving this goal, this year's *Public Accounts* were not tabled until six months after the fiscal year-end. The Civil Service strike at the end of the 1995/96 fiscal year

did have a significant impact on the province's ability to provide the required financial information earlier than in the past. However, there are several major areas where improvements are needed if the tabling of the *Public Accounts* is to be significantly advanced.

Specifically, I noted that two major agencies were not able to provide audited financial statements within the required time periods. Additionally, two significant financial issues which should have been resolved prior to the fiscal year-end were only resolved well after that date.

FAILURE TO COMPLY WITH STATUTORY REPORTING REQUIREMENTS

According to its governing legislation, the *Capital Investment Plan Act, 1993*, the Ontario Realty Corporation (ORC) is required to provide its annual report including audited financial statements within three months of its March 31 fiscal year-end. However, the Corporation's management had not finalized the financial statements by mid-September and my Office found that adequate documentation was not available to determine whether certain transactions in the accounts had been properly recorded. Additionally, the reconciliation of the Corporation's bank account for the month of March 1996 was only completed by mid-September. Reconciliations for the months April 1996 to August 1996 were in the process of being completed by mid-September. Timely preparation of monthly bank reconciliations, normally done in the following month, is an essential control element in accounting fully for public money.

The Corporation's management cited the Civil Service strike and the departure of senior staff as the principal reasons for the deficiencies.

As a consequence, ORC was neither able to comply with its legislated reporting requirements nor were the audited financial statements available for inclusion in *Volume 2* of the 1996 *Public Accounts*. Therefore, ORC's financial information had to be consolidated on an estimated basis in the province's Financial Statements. However, as most ORC assets and liabilities and all its transactions with the government are eliminated on consolidation, the above-noted deficiencies did not result in any material misstatements of the province's Financial Statements.

AUDITED FINANCIAL STATEMENTS NOT AVAILABLE FOR PUBLIC ACCOUNTS

In November 1995 the government announced that the operations of the Ontario Development Corporations would be wound down in respect of new loans and loan guarantees. In April 1996, shortly after the March 31 fiscal year-end of the Corporations, Management Board approved and later refined an interim wind-down strategy for the entire loan and guarantee portfolios over a two-year period. This period was much shorter than had originally been anticipated. As this had a significant impact on the valuation process of the loan portfolio for financial statement purposes and the resulting audit opinion, subsequent discussions and clarification of the planned wind-down period and the nature of the wind-down were required. As a result, the final audited financial statements were not available for *Volume 2* of the 1996 *Public Accounts*.

MORE TIMELY RESOLUTION OF FINANCIAL ISSUES

To determine the pension liabilities and expense for the fiscal year, the Ministry of Finance required information from the actuaries of the three major government-sponsored pension plans. Before the actuaries can perform the necessary calculations, the Ministry must first determine and communicate to them its “best estimate” assumptions regarding future salary rate increases, expected investment returns and other key variables. This was done for the 1995/96 fiscal year well after the fiscal year-end. I recommend that in the future the Ministry communicate its “best estimate” assumptions to the three pension plans in advance of the fiscal year-end.

In September 1995 the Canadian Institute of Chartered Accountants issued new recommendations concerning the disclosure of financial instruments. The province decided to adopt the recommended note disclosure for the 1995/96 fiscal year, one year ahead of the required implementation date, but the decision, which required lengthy and complex subsequent calculations, was not finalized until well after the March 31, 1996 fiscal year-end. The resulting disclosure in the province’s Financial Statements is very comprehensive. I recommend that, in future, the decision and the planning to adopt new accounting and disclosure pronouncements occur much earlier in the fiscal year.

OTHER RECOMMENDATIONS FOR IMPROVEMENT

Although the audit of the province’s Financial Statements was not designed to identify all weaknesses in internal controls, nor to provide assurances on financial systems and procedures as such, I noted a number of areas during the audit where I believed improvements could have been made. While none of these matters affects the fairness of the Financial Statements of the province, they will be covered, along with accompanying recommendations for improvement, in a management letter to the Ministry of Finance.

OTHER MATTERS

The Provincial Auditor is required under section 12 of the *Audit Act* to report on any Special Warrants and Treasury Board Orders issued during the year. Additionally, under section 91 of the *Legislative Assembly Act*, the Provincial Auditor is required to report on any transfers of money between Items within the same Vote in the *Estimates* of the Office of the Legislative Assembly.

LEGISLATIVE APPROVAL OF GOVERNMENT EXPENDITURES

The government requires the approval of the Legislature for the funds it intends to spend each fiscal year. As a first step in requesting such approval, the government normally tables, near the start of the fiscal year, an annual *Budget* outlining in general terms its proposed plans for

the year. Shortly thereafter, the government tables detailed *Expenditure Estimates* which outline each ministry's spending proposals on a program-by-program basis.

The Standing Committee on the Estimates reviews selected ministry *Estimates* and presents one report to the Legislature with respect to those ministry *Estimates* that were reviewed. The *Estimates* of those ministries not selected for review are deemed to be passed by the Committee and reported as such to the Legislature. Orders of Concurrence for the *Estimates* reported on by the Committee are then debated in the Legislature for a maximum of six hours and then voted on.

Once the Orders of Concurrence are approved, the Legislature provides the government with legal spending authority by approving the *Supply Act* which stipulates the amounts which can be spent according to the ministry programs as set out in the *Estimates*. Once approved, the individual program expenditures are considered Voted Appropriations. The *Supply Act, 1996*, pertaining to the fiscal year ended March 31, 1996, received Royal Assent on April 25, 1996.

Prior to the passage of the *Supply Act*, the Legislature authorizes payments by means of motions of interim supply. For the 1995/96 fiscal year, the Legislature approved a motion of interim supply on November 23, 1995 covering the period from December 1, 1995 to April 30, 1996. Payments for the period April 1, 1995 to November 30, 1995 were authorized by Special Warrants when the Legislature was not in session.

SPECIAL WARRANTS

If motions of interim supply cannot be approved because the Legislature is not in session, section 7 of the *Treasury Board Act, 1991* allows the issue of a Special Warrant authorizing the expenditure of money for which there is no appropriation by the Legislature. Special Warrants are authorized by Orders in Council approved by the Lieutenant-Governor on the recommendation of the government.

Four Special Warrants totalling \$33,034,893,600 were issued for the period April 1, 1995 to November 30, 1995. The Special Warrants were approved by Orders in Council dated March 29, 1995 and June 28, 1995. Payments of \$32,932,643,600 were authorized for the general and necessary expenditures of government ministries, and \$102,250,000 for the Office of the Legislative Assembly, the Office of the Provincial Auditor, the Office of the Chief Election Officer and the Ombudsman Ontario.

TREASURY BOARD ORDERS

Section 8 of the *Treasury Board Act, 1991* allows the Treasury Board to make an order authorizing payments to supplement the amount of any Voted Appropriation which is insufficient to carry out the purpose for which it was made, provided the amount of the increase is offset by a corresponding reduction of expenditures from other Voted Appropriations. The order may be made at any time before the first day of May following the end of the fiscal year in which the supplemented appropriation was made.

The following chart is a summary of Treasury Board Orders issued for the past five fiscal years:



Treasury Board Orders for the 1995/96 fiscal year summarized by month of issue are as follows:

Month of Issue	Number	Authorized \$
May 1995-February 1996	16	710,265,900
March 1996	4	104,611,300
April 1996	15	261,018,300
	35	1,075,895,500

In accordance with a Standing Order of the Legislative Assembly, the preceding Treasury Board Orders have been listed in *The Ontario Gazette*, together with explanatory information. A detailed listing of Treasury Board Orders, showing the amounts authorized and expended, is included as Exhibit Four of this Report.

TRANSFERS AUTHORIZED BY THE BOARD OF INTERNAL ECONOMY

When the Board of Internal Economy authorizes the transfer of money from one Item of the *Estimates* of the Office of the Assembly to another Item within the same Vote, section 91 of the *Legislative Assembly Act* requires the Provincial Auditor to make special mention of the transfer(s) in the *Annual Report*.

In respect of the 1995/96 *Estimates*, the following transfers were made within Vote 201:

From:	Item 2	Office of the Clerk	\$ 1,325,000
To:	Item 6	Sessional Requirements	300,000
	Item 8	Caucus Support Services	100,000
	Item 9	Members' Indemnities and Travel	850,000
	Item 10	Members' Office Support Services	75,000

In addition, within Vote 202, \$230,000 was transferred from Item 2 (Commission on Election Finances) to a Statutory Item (Election Expenses Subsidies, the *Election Finances Act*).

UNCOLLECTABLE ACCOUNTS

Under section 5 of the *Financial Administration Act*, the Lieutenant-Governor in Council, on the recommendation of the Minister of Finance, may authorize an Order in Council to delete from the accounts any amount due to the Crown which is deemed uncollectable. The losses deleted from the accounts during any fiscal year are to be reported in the *Public Accounts*.

In the 1995/96 fiscal year, receivables of \$185.7 million (in 1994/95 the amount was \$189.5 million) due to the Crown from individuals and non-government organizations were written off. Additionally, about \$4.3 billion was deleted from the records due to the discontinuance of loan-based financing arrangements, as well as \$285 million in loans due to the Crown from provincial Crown agencies and corporations. The \$4.8 billion in total write-offs did not affect the 1995/96 deficit as reported in the Financial Statements as the amounts had been expensed or eliminated on consolidation in previous years. Details of these items are reported on page 3-101 of *Volume 2* of the *Public Accounts*.

Under the accounting policies followed in the audited Financial Statements of the province, a provision for doubtful accounts is recorded against the accounts receivable balances. Accordingly, a significant portion of the impact of the \$185.7 million in write-offs had already been reflected in the audited Financial Statements. However, the actual deletion from the accounts required Order-in-Council approval. The major portion of these write-offs related to the following:

- \$114 million for uncollectable taxes relating to various tax receivables;
- \$24.2 million for uncollectable loans made under the Ontario Student Loan program and the Ontario Study Grant Plan;

-
- \$12.5 million for uncollectable loans made by the Development Corporations to their clients or to the clients of ministries while acting as their agent;
 - \$12.2 million pertaining to uncollectable overpayments made under the *Family Benefits Act* and the *General Welfare Act*; and
 - \$11.5 million in uncollectable fines, costs and fees owed to provincial Courts.

There was a substantial write-off of about \$4.3 billion in the accounts of the Ontario Financing Authority due to the discontinuance of loan-based financing arrangements during the year. Introduced by the government in the 1993/94 fiscal year, this funding mechanism used the Ontario Financing Authority as an intermediary during the 1993/94 and 1994/95 fiscal years to provide loans for a number of capital projects to universities, colleges, school boards and hospitals.

In the accounts of the Ontario Financing Authority the funds received from the province in the 1993/94 and 1994/95 fiscal years, and loaned to the organizations for capital projects, were recorded as loans receivable from the organizations. However, when the loan-based financing arrangements were terminated in the 1995/96 fiscal year, the \$4.3 billion in outstanding loans receivable relating to the 1993/94 and 1994/95 fiscal years had to be written off in the accounts of the Ontario Financing Authority, and the appropriate Orders in Council obtained.

However, it should be noted that the loans by the Ontario Financing Authority to the organizations, and the 1995/96 write-offs, had no affect on the province's Financial Statements. Since the government had agreed to provide the funds, through future annual appropriations, for the organizations to repay their loans to the Authority, my opinion was that the funds were, in reality, provincial grants. This view was in accordance with the recommendations of the Public Sector Accounting and Auditing Board, and consequently these loans were properly reflected as grants in the province's audited Financial Statements for the 1993/94 and 1994/95 fiscal years.

Additionally, loans receivable relating to three other Crown agencies were written off during the year.

- \$129.4 million in loan-based financing relating to a reduction in the appraised value of land held by the Ontario Realty Corporation;
- a \$70.8 million loan to the Ontario Aerospace Corporation, in order to reflect the underlying nature of the loan-based financing transaction; and
- \$84.8 million relating to the uncollectability of loans due from the Interim Waste Authority resulting from the wind-up of this government agency.

CHAPTER SIX

The Office of the Provincial Auditor

MISSION STATEMENT

Our mission is to report to the Legislative Assembly objective information and recommendations resulting from our independent audits of the government's programs, its Crown agencies and corporations. In doing so, the Office assists the Assembly in holding the government and its administrators accountable for the quality of the administration's stewardship of public funds and for the achievement of value for money in government operations.

We audit the accounts and records of the receipt and disbursement of public money forming part of the Consolidated Revenue Fund, the financial statements of the province and the accounts of agencies of the Crown. Our responsibilities are set out in the *Audit Act* (Exhibit Six in this Report).

The Office thus fulfils its mission by conducting value for money, attest and compliance audits and by presenting this *Annual Report* to the Legislative Assembly. We also assist and advise the Standing Committee on Public Accounts in its review of the *Public Accounts* of the province and the *Annual Report* of the Provincial Auditor.

INDEPENDENCE

The Provincial Auditor is appointed as an officer of the Legislative Assembly by the Lieutenant-Governor in Council on the address of the Assembly. This is done after consultation with the Chair of the Standing Committee on Public Accounts on the recommendation of the Committee. The Provincial Auditor and staff of the Office are independent of the government and its administration. We have access to all relevant information and records necessary to the performance of our duties under the *Audit Act*. Our independence is a safeguard which enables the Office to fulfil its auditing and reporting responsibilities objectively and fairly.

The Board of Internal Economy, an all-party legislative committee independent of the government's administrative process, approves our budget. As required by the *Audit Act*, the Office's expenditures relating to the 1995/96 fiscal year have been audited by a firm of chartered accountants appointed by the Board and are presented at the end of this chapter. The audited statement of expenditure is submitted annually to the Board of Internal Economy and tabled in the Assembly in the fall session.

AUDIT RESPONSIBILITIES

PRIMARY RESPONSIBILITY

The primary responsibility of the Office is to audit the administration of government programs and activities, as carried out by ministries and agencies of the Crown under government policies.

Our audit responsibilities do not extend to government policy matters. The Office does not audit government policies or information contained in cabinet documents used in policy deliberations or decisions. The government is held accountable for policy matters by the Legislature, which continually monitors and challenges government policies and programs through questions in the Legislature and reviews of legislation and expenditure estimates.

ACCOUNTS OF THE PROVINCE AND MINISTRIES

The Provincial Auditor, per subsection 9(1) of the *Audit Act*, is required to audit the accounts and records of the receipt and disbursement of public money forming part of the Consolidated Revenue Fund whether held in trust or otherwise. To this end, the Office carries out an annual attest audit to enable the Provincial Auditor to express an opinion on the province's summary financial statements and carries out cyclical value for money audits. Exhibit One in this Report lists the value for money audits conducted in 1995/96.

AGENCIES OF THE CROWN AND CROWN CONTROLLED CORPORATIONS

The Provincial Auditor, per subsection 9(2) of the *Audit Act*, is required to audit those agencies of the Crown that are not audited by another auditor. Exhibit Two, part (i), lists the agencies audited for the 1995/96 fiscal year. Public accounting firms are currently contracted by the Office to audit the financial statements of several of these agencies on our behalf.

Exhibit Two, part (ii), and Exhibit Three list the agencies of the Crown and Crown controlled corporations audited by public accounting firms for the 1995/96 fiscal year. Subsection 9(2) of the *Audit Act* requires public accounting firms who are appointed auditors of agencies of the Crown to audit under the direction of, and to report to, the Provincial Auditor. Under subsection 9(3) of the Act, public accounting firms auditing Crown controlled corporations are required to deliver a copy of the audited financial statements to the Provincial Auditor, as well as a copy of their findings and recommendations to management (management letter).

ADDITIONAL AUDIT RESPONSIBILITIES

Under section 16 of the *Audit Act*, the Provincial Auditor may, by resolution of the Standing Committee on Public Accounts, be required to examine and report on any matter respecting the Public Accounts.

Section 17 of the Act requires the Provincial Auditor to undertake special assignments requested by either the Assembly, the Standing Committee on Public Accounts (by resolution of the Committee), or by a minister of the Crown. However, these special assignments are not to take precedence over the Auditor's other duties. The Provincial Auditor can decline an assignment referred by a minister if, in the opinion of the Auditor, it conflicts with other duties.

During the period of audit activity (October 1995 to September 1996) covered by this Report, the Provincial Auditor completed an audit, requested by the Minister of Labour, of the Workplace Health and Safety Agency.

AUDIT ACTIVITIES

TYPES OF AUDITS

Value for money, compliance and attest audits are the three main types of audits carried out by the Office. All such audits are performed in accordance with generally accepted auditing standards. In addition, inspection audits of selected grant recipient organizations may be conducted under section 13 of the *Audit Act*. A brief description of each of these audit categories follows.

VALUE FOR MONEY

Subsection 12(2) of the *Audit Act* requires the Office to report on any cases observed where money was spent without due regard to economy and efficiency, or where appropriate procedures were not taken to measure and report on the effectiveness of programs. This value for money mandate is exercised with respect to various ministry and Crown agency programs and activities. The Office does not have a mandate under the *Audit Act* to conduct value for money audits of grant recipients, but may assess the steps taken by a ministry/agency to satisfy itself that funds provided to organizations are well managed.

It is not part of the Office's mandate to evaluate the effectiveness of programs or develop standards to measure the efficiency of program delivery, as these functions are the responsibility of the ministry/agency management. The Office is only responsible for assessing the extent to which these functions have been carried out by management.

COMPLIANCE

Compliance audits are carried out in ministries and Crown agencies in order to assess whether transactions and other aspects of operations are in compliance with legislative and administrative requirements. The Office generally conducts such audit work as a component of our value for money and attest audits.

ATTEST

Attest (financial) audits are designed to permit the expression of a professional opinion on a set of financial statements. The opinion states whether the operations and financial position of the entity have been fairly presented in compliance with appropriate accounting policies. The Office conducts attest audits of the summary financial statements of the province and of various Crown agencies on an annual basis.

INSPECTION AUDITS OF GRANT RECIPIENT ORGANIZATIONS

Grants to organizations such as hospitals, universities, school boards, municipalities and thousands of smaller organizations amount to approximately 48% of total government expenditures, and are subject to inspection audits. An inspection audit is defined in the *Audit Act* as an examination of accounting records. Although value for money observations may arise as a by-

product of such audits, the audits are not value for money oriented, because only accounting records can be examined in inspection audits.

The Office may, where circumstances warrant the extension of a ministry or agency audit, conduct inspection audits of grant recipients. In the past, the Office has carried out inspection audits of major recipients of grants, specifically community colleges, universities, hospitals and school boards. However, in recent years, the Office has deferred major inspection audit activity pending consideration of a proposal to amend the *Audit Act* to permit the Office to access all records and information necessary to perform full scope audits, including value for money, of grant recipients. Further details and background on the subject of amendments to the *Audit Act* are provided in Chapter Seven in the section entitled "Status of Committee Recommendation Respecting Amendments to the *Audit Act*."

Payments are also made to individuals under a variety of programs, such as OHIP or family benefit allowances. Such individual recipients of government funds are not, and should not be, subject to direct audit by the Provincial Auditor.

SCHEDULING OF AUDIT ACTIVITIES

MINISTRY AUDITS

All major ministry programs are considered for audit over a five-year cycle. These cyclical audits are primarily value for money oriented and include major information systems related to the program. They deal specifically with the administration of programs and activities by management.

Various factors are considered in rating the priority of an audit. The factors considered include: total expenditures, last time audited and results of previous cyclical audits, and work completed or planned by internal audit. Risk assessments are also carried out to determine whether a program should be audited. In assessing the various risk factors, including the impact of a program on the public, we attempt to determine the possible matters of significance which may result from auditing a program. The following are major factors considered in planning each audit:

- mandate under the *Audit Act*;
- clarity of management's objectives and goals;
- quality of financial and management information, systems, procedures and controls;
- estimated costs, benefit and duration of an audit; and
- complexity/diversity of operations.

The amount of work done by ministry and agency internal auditors and the breadth of its scope can have a major impact on the timing, frequency and extent of our audit activity. By having access to internal audit work plans, working papers and reports, the Office is able to avoid duplication of effort by relying, to the extent possible, on internal audit activities.

AGENCY AUDITS

Agencies of the Crown are audited annually (attest audits) as required by legislation. While value for money observations may arise during these audits, the Office also periodically performs more in-depth value for money audits at selected agencies.

SPECIAL ASSIGNMENTS

The Office may undertake special assignments at ministries and their agencies as requested by the Legislature, the Standing Committee on Public Accounts or a minister of the Crown. These audits are scheduled as resources permit.

REPORTING ACTIVITIES

MINISTRY AUDITS

Our draft reports and management letters are considered to be an integral part of our audit working papers and, according to section 19 of the *Audit Act*, are not required to be laid before the Assembly or any of its committees.

The Office prepares a preliminary draft report for discussion and factual clearance as each audit is completed. The preliminary draft report is discussed with senior ministry officials and revised, as necessary, to reflect the results of the discussion. The resulting draft reports are then reviewed with the respective deputy minister and contain the ministry response. Following clearance of the preliminary draft report and the Ministry's response at the deputy minister level, a final draft report is prepared and issued to the deputy minister and, where deemed necessary, to the minister. We also provide a copy of all final draft reports to the Secretary of the Management Board of Cabinet. These final draft audit reports form the basis for the preparation of our *Annual Report* to the Legislative Assembly.

AGENCY AUDITS

With respect to attest audits of agencies, agency legislation normally stipulates that the Provincial Auditor's reporting responsibilities are to the agency's board and the minister(s) responsible. Also, we provide copies of the audit opinions and of the related agency financial statements to the Secretary of the Management Board of Cabinet, as well as to the deputy minister of the associated ministry.

In instances where matters which require improvements by management have been noted during the course of an agency attest audit, a draft management letter is prepared and discussed with senior management and revised, as necessary, to reflect the results of the discussion. The draft management letter is also reviewed with the agency's chief executive officer and contains management's response. Following clearance of the draft management letter and the response of the agency's senior management, a final management letter is prepared and, if deemed necessary, issued to the agency head (chair). Depending on the significance of the content of the management letter, a copy of it may also be forwarded to the minister and deputy minister of the associated ministry and to the Secretary of the Management Board of Cabinet. Matters of significance contained in the management letter may also be included in the Provincial Auditor's *Annual Report* to the Legislative Assembly.

SPECIAL ASSIGNMENTS

Under sections 16 and 17 of the *Audit Act*, the Office has additional reporting responsibilities relating to special assignments for the Legislative Assembly, the Standing Committee on Public Accounts or a minister of the Crown. At the conclusion of such work, the Provincial Auditor normally reports to the initiating authority of the assignment.

ANNUAL REPORT

In each *Annual Report*, we identify areas where improvements can be made to the economy, efficiency and effectiveness of government operations. Our audit observations are accompanied by recommendations for improvement and, wherever possible, we attempt to provide quantitative indicators of the significance of the observations.

To ensure that our recommendations receive timely attention, we have instituted more in-depth follow-up reviews on the progress of action plans to address our audit observations and recommendations and to report on their status two years after the audit is reported. A detailed account of the current status of recommendations made in the *1994 Annual Report* is provided in Chapter Four of this Report.

OFFICE ORGANIZATION AND PERSONNEL

The Office organization consists of management teams, each of which is headed by a director responsible for the audits of a sizeable portfolio. Audit managers are assigned to portfolios. The composition of the portfolios attempts to align somewhat related audit entities and to foster expertise in the various areas of audit activity. The portfolio directors, the Assistant Provincial Auditor and the Provincial Auditor make up the Office's Executive Steering Committee (ESC). The executive management of the Office as at September 30, 1996 consisted of:

Erik Peters, FCA	-	Provincial Auditor
Ken Leishman, CA	-	Assistant Provincial Auditor
Jim McCarter, CA	-	Executive Director, Finance, Revenue, Public Accounts and General Government Portfolio
Walter Bordne, CA	-	Director, Community and Social Services Portfolio
Andrew Cheung, CA	-	Director, Justice and Regulatory Portfolio
Gerard Fitzmaurice, CA	-	Director, Economic Development Portfolio
John McDowell, CA	-	Director, Crown Agencies, Corporations, Boards and Commissions Portfolio
Nick Mishchenko, CMA	-	Director, Health Portfolio
Gary Peall, CA	-	Director, Education and Training, and Municipal Affairs and Housing Portfolio

Annemarie Wiebe, the Manager of Human Resources, regularly attends meetings of the ESC to provide advice on matters related to human resources.

The audit managers, together with the members of the ESC, constitute the Office's Resource Planning and Allocation Committee. All audit staff below the level of audit manager are assigned to audits from an audit staff pool.

CODE OF PROFESSIONAL CONDUCT

The Office has a *Code of Professional Conduct* to encourage staff to maintain high professional standards and ensure a professional work environment. It is intended to be a general statement of philosophy, principles and rules regarding conduct for employees of the Office, who have a duty to conduct themselves in a professional manner and to strive to achieve the highest standards of behaviour, competence and integrity in their work. The Code provides the reasoning

for these expectations and further describes the Office's responsibilities to the Legislative Assembly, the public and our audit entities. The Code also provides guidance on disclosure requirements and the steps to be taken to avoid conflict of interest situations.

CANADIAN CONFERENCE OF LEGISLATIVE AUDITORS

The 24th annual meeting of the Conference of Legislative Auditors was held in Victoria, British Columbia from September 8 to 10, 1996. This annual gathering, bringing together legislative auditors from the federal government and the provinces, provides a useful forum for sharing ideas and exchanging information important to the work of the legislative auditing community.

This year's conference, attended by the Provincial Auditor and the Assistant Provincial Auditor, covered such topics as:

- audit evidence for performance auditing;
- measurement and reporting on the performance of legislative audit offices;
- an accountability framework for aboriginal self-government;
- updates and discussion of professional developments in Canada and the United Kingdom;
- a joint session with the Canadian Council of Public Accounts Committees on the subject of *Inputs and Outcomes — The Art of Measuring Performance*.

ACKNOWLEDGMENTS

EXTERNAL ADVISORY COMMITTEE

The external Advisory Committee periodically reviews the Office's audit approach, analyzes the Office profile, and provides advice relating to sensitive audit issues. The Committee meets at the call of the Provincial Auditor.

The Committee's members combine the independence of current association with the private sector with extensive knowledge of the parliamentary system and the function of government. The current members are Messrs. Rendall Dick, LSM; David Knight, FCA; Robert Lord, FCA; Ron Moore, FCA; and David Wilson, FCA.

AUDITEES AND STAFF

The Provincial Auditor expresses his sincere appreciation to the officials of ministries, agencies and other entities for their cooperation in providing our staff with all the information and explanations required during the performance of the Office's audit work.

A special appreciation is extended to the staff of the Office for their dedication, competence and the professional manner in which they have carried out their duties.

OFFICE EXPENDITURE

The following is the 1996 audited Statement of Expenditure for the Office.

Office of the Provincial Auditor
Statement of Expenditure
For the Year Ended March 31, 1996

	1996		1995	
	Actual (\$000s)	Estimates (\$000s)	Actual (\$000s)	Estimates (\$000s)
Salaries and wages (note 2)	4,652	5,120	4,562	5,120
Employee benefits (note 3)	830	724	718	1,125
Transportation and communication	149	195	193	292
Services	1,318	1,407	1,379	1,300
Supplies and equipment	75	81	103	71
Transfer payment - Canadian Comprehensive Auditing Foundation	<u>50</u>	<u>50</u>	<u>50</u>	<u>50</u>
	7,074	7,577	7,005	7,958
The Audit Act	<u>137</u>	<u>188</u>	<u>139</u>	<u>188</u>
	<u>7,211</u>	<u>7,765</u>	<u>7,144</u>	<u>8,146</u>

Notes:

1. *Accounting Policy*

The statement of expenditure has been prepared using a modified cash basis of accounting which allows for an additional 30 days to pay for goods and services received during the fiscal year just ended.

2. *Social Contract*

The 1996 Estimates for salaries and wages have been reduced by \$235,300 (1995 - \$235,300) to reflect the requirements of the Social Contract.

3. *Pension Plan*

The Office provides pension benefits for its employees through participation in the Public Service Pension Fund (PSPF) established by the Province of Ontario.

The Ontario Public Service Employees' Union Pension Act, 1994 provides for a reduction of the employer's contributions to the PSPF for each of the three fiscal years ending 1995-97. For the current fiscal year, the impact of these reductions on the Office's pension expense was a reduction of \$380,600 (1995 - \$429,200).

The Office's contribution related to the PSPF for the year was \$253,759 (1995 - \$118,856) and is included in Employee benefits.

4. *Public Sector Salary Disclosure Act, 1996*

In accordance with the requirements of subsection 3(5) of the Public Sector Salary Disclosure

Act, 1996, the following individual was paid an annual salary in excess of \$100,000 in the 1995 calendar year:

		<i>Salary Paid \$</i>	<i>Taxable Benefits \$</i>
<i>Peters, Erik</i>	<i>Provincial Auditor</i>	137,580	5,484

Auditors' Report

TO THE BOARD OF INTERNAL ECONOMY THE PROVINCE OF ONTARIO

We have audited the statement of expenditure of the Office of the Provincial Auditor for the year ended March 31, 1996. This statement is the responsibility of the organization's management. Our responsibility is to express an opinion on this statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation.

In our opinion, this statement presents fairly, in all material respects, the expenditures of the Office of the Provincial Auditor for the year ended March 31, 1996 in accordance with the accounting policy referred to in note 1 to the statement.

Toronto, Ontario
July 4, 1996

ALLEN & MILES
CHARTERED ACCOUNTANTS

CHAPTER SEVEN

The Standing Committee on Public Accounts

7.00

APPOINTMENT AND COMPOSITION OF THE COMMITTEE

The Standing Orders of the Legislative Assembly provide for the appointment of an all-party Standing Committee on Public Accounts for each session of the Legislature.

The membership of the Committee is approximately proportional to the respective party membership in the Legislature. All members are entitled to vote on motions with the exception of the Chair, whose vote is restricted to the breaking of a tie.

In accordance with the Standing Orders, a Standing Committee on Public Accounts was appointed on October 17, 1995, soon after the commencement of the First Session of the Thirty-sixth Parliament. The membership of the Committee at June 27, 1996 when the House adjourned for the summer recess was as follows:

Dalton McGuinty, Chair, Liberal
Mike Colle, Vice-Chair, Liberal
Isabel Bassett, Progressive Conservative
Marcel Beaubien, Progressive Conservative
Dave Boushy, Progressive Conservative
Gary Carr, Progressive Conservative
Bruce Crozier, Liberal
Gary Fox, Progressive Conservative
Steve Gilchrist, Progressive Conservative
John Hastings, Progressive Conservative
Gerard Kennedy, Liberal
Shelley Martel, New Democrat
Gilles Pouliot, New Democrat
Toni Skarica, Progressive Conservative

ROLE OF THE COMMITTEE

The Committee examines, assesses and reports to the Legislature on a number of issues, including the economy and efficiency of government operations; the effectiveness of programs in achieving their objectives; controls over assets, expenditures and the assessment and collection of revenues; and the reliability and appropriateness of information in the *Public Accounts*.

In fulfilling this role, the Committee reviews and reports to the Assembly its observations, opinions and recommendations on selected matters in the *Annual Report* of the Provincial Auditor and the *Public Accounts*. These documents are deemed to have been permanently referred to the Committee as soon as they are tabled.

PROVINCIAL AUDITOR'S ROLE IN THE PROCESS

The Provincial Auditor assists the Committee by providing appropriate audit information for use by the Committee in its scrutiny of government programs and financial activities.

Additionally, the Provincial Auditor and senior staff attend committee meetings during the review of the *Public Accounts* and the *Annual Report* of the Provincial Auditor, and in order to assist the Committee in planning its agenda.

COMMITTEE PROCEDURES AND OPERATIONS

GENERAL

The Committee meets on Thursday mornings when the Legislature is sitting. At times, the Committee also meets during the summer and winter when the Legislature is not sitting. All meetings are open to the public with the exception of those dealing with the setting of the Committee's agenda and the preparation of committee reports.

At meetings dealing with ministry operations, the deputy minister, usually accompanied by senior ministry officials, answers questions raised by committee members. Since the Committee is concerned with administrative rather than policy matters, ministers rarely attend. When the Committee is reviewing Crown agencies, the chief executive officer and, at times, the chair of the board attend the meetings. They are usually accompanied by senior agency staff.

MEETINGS HELD

From October 1995 to September 1996, the Committee met regularly on its designated meeting day when the Legislature was sitting and also during the 1996 winter recess. The Committee's work during this period included:

- reviews of the following subjects from the Provincial Auditor's 1995 *Annual Report*:
 - Retail Sales Tax, Ministry of Finance; and
 - Ontario Board of Parole, Ministry of the Solicitor General and Correctional Services;
- discussions concerning amending the *Audit Act* to broaden the Provincial Auditor's mandate in respect of inspection audits of government grant recipients; and
- organizing the Committee's agenda.

COMMITTEE PROCEDURES

The Committee conducts hearings and issues reports at the conclusion of its hearings. Committee procedures include the following:

- in-depth briefings and preparation;
- site visits to discuss concerns and obtain first-hand knowledge of everyday working conditions in the field;

-
- when practical, the inclusion of ministry responses in committee reports;
 - reporting to the Legislature at the conclusion of the hearing; and
 - follow-up of committee recommendations.

The Committee also follows up in writing with those ministries and Crown agencies not selected for detailed review by the Committee on their plans and timetable to address the concerns raised in the Provincial Auditor's *Annual Report*. This innovation allows the auditee to update the Committee on activities since the completion of the audit, such as any initiatives taken to address the Provincial Auditor's recommendations.

REPORTS OF THE COMMITTEE

GENERAL

The Committee issues its reports to the Legislature. Each report consists of a précis of the information reviewed by the Committee during its meetings, together with its comments and recommendations.

All reports are available through the Clerk of the Committee, thus affording public access to full details of committee deliberations.

COMPLETED COMMITTEE REPORTS

During the October 1995 to September 1996 period, the Committee submitted the following reports to the Legislative Assembly:

- Report on the Retail Sales Tax; and
- Report on the Ontario Board of Parole.

FOLLOW-UP OF RECOMMENDATIONS MADE BY THE COMMITTEE

The Clerk of the Committee is responsible for following up the actions taken by ministries or agencies on the Committee's recommendations. Our Office confers with the Clerk to ascertain the status of the recommendations and, if considered necessary, would bring any significant matters to the attention of the Legislature in our Annual Reports.

STATUS OF COMMITTEE RECOMMENDATION RESPECTING AMENDMENTS TO THE *AUDIT ACT*

As mentioned in our 1995 *Annual Report*, the Standing Committee on Public Accounts was to have played a key role in the proposed public consultation process on amendments to the *Audit Act* by holding public hearings on the subject. However, with the dissolution of the Legislature on April 28, 1995 and the general election on June 8, 1995, amendments to the *Audit Act* remained in abeyance.

At the new Committee's first meeting on November 16, 1995, the Provincial Auditor briefed the members on the role of the Office and its interaction with the Committee and highlighted matters deserving the Committee's consideration. Chief among these matters was the previous

Committee's recommendation to the Minister of Finance that public hearings be held to consider amendments to the *Audit Act*.

Under the current *Audit Act*, the Provincial Auditor may only carry out a financial and compliance audit of a grant recipient to determine whether the grant was used for the intended purpose. The primary objective of the proposed amendments is to provide the Provincial Auditor with the discretionary authority to perform value for money audits of organizations, such as community colleges, universities, hospitals, municipalities and school boards, which receive grants from the Province of Ontario or from an agency of the Crown. In this regard, the new Committee presided over public hearings on the proposed amendments to the *Audit Act*.

As part of the process, the Committee invited the deputy ministers of the main transfer payment ministries, the major transfer payment partners and other interested organizations to meet and discuss the proposed amendments or, alternatively, to make suggestions for other ways to improve grant recipient accountability to the government and to the Legislative Assembly.

At the conclusion of the public hearings process, the Provincial Auditor on June 13, 1996 submitted specific draft proposals for amending the *Audit Act* to the Committee. Following discussion of the proposed amendments, the Committee unanimously adopted the following motion:

"That the proposed amendments be provided to the Minister of Finance and that the Committee requests a response and action plan from the Minister of Finance by the Committee's first meeting following the Summer recess [September 26, 1996]."

OTHER COMMITTEE ACTIVITIES

CANADIAN COUNCIL OF PUBLIC ACCOUNTS COMMITTEES (CCPAC)

The Council consists of delegates of federal, provincial and territorial public accounts committees from across Canada. The Council meets at the same time and place as the annual Conference of Legislative Auditors (COLA) to discuss issues of current interest. The seventeenth annual meeting of the Council was held in Victoria, British Columbia from September 8 to 10, 1996. The annual CCPAC and COLA meetings also permit the delegations to participate in a joint session to discuss subjects of mutual interest to politicians and legislative auditors. The 1996 joint session with COLA was on the subject of *Inputs and Outcomes — The Art of Measuring Performance*.



Exhibits

EXHIBIT ONE

Value for Money and Special Audits Conducted in 1995/96

MINISTRY AUDITS

MINISTRY OF AGRICULTURE, FOOD AND RURAL AFFAIRS

- Agriculture Division
- Education, Research and Laboratory Services

COMMUNITY AND SOCIAL SERVICES

- Capital Expenditures
- Provincial Allowances and Benefits Program
- Supportive Services

MINISTRY OF CONSUMER AND COMMERCIAL RELATIONS

- Liquor Licence Board of Ontario

MINISTRY OF EDUCATION AND TRAINING

- Colleges of Applied Arts and Technology
- Ontario Training and Adjustment Board

MINISTRY OF ENVIRONMENT AND ENERGY

- Environmental Sciences and Standards Division

MINISTRY OF FINANCE

- Corporations Tax

MINISTRY OF HEALTH

- Alternate Payment Program
- Assistive Device Services Activity
- Drug Benefits Program
- Independent Health Facilities
- Whitby Mental Health Centre

MINISTRY OF LABOUR

- Occupational Health and Safety Program

ONTARIO REALTY CORPORATION

- Property Management Division

ONTARIO TRANSPORTATION CAPITAL CORPORATION

- Highway 407 Central Project

SPECIAL AUDITS

REVIEW FOR MINISTER OF THE CROWN

MINISTRY OF LABOUR

- Workplace Health and Safety Agency

EXHIBIT TWO

Agencies of the Crown

(I) AGENCIES WHOSE ACCOUNTS ARE AUDITED BY THE PROVINCIAL AUDITOR

Agricultural Rehabilitation and Development Directorate of Ontario
Alcoholism and Drug Addiction Research Foundation
Algonquin Forestry Authority
Centennial Centre of Science and Technology
Commission on Election Finances
Crop Insurance Commission of Ontario
Eastern Ontario Development Corporation
Egg Fund Board (December 31), Fund for Egg Producers
Election Act - Election Fees and Expenses
Environmental Compensation Corporation
Grain Financial Protection Board, Funds for Producers of Grain Corn and Soybeans,
Fund for Producers of Canola
Innovation Ontario Corporation
Interim Gross Revenue Insurance Plan Program Account
Interim Waste Authority Ltd.
Legal Aid Fund, Law Society of Upper Canada
Liquor Control Board of Ontario
Livestock Financial Protection Board, Fund for Livestock Producers
Northern Ontario Development Corporation
Northern Ontario Heritage Fund Corporation
Office of the Assembly
Office of the Environmental Commissioner
Office of the Information and Privacy Commissioner
Office of the Children's Lawyer
Office of the Ombudsman

Ontario Aerospace Corporation
Ontario Agricultural Museum
Ontario Cancer Treatment and Research Foundation
Ontario Clean Water Agency (December 31)
Ontario Development Corporation
Ontario Educational Communications Authority
Ontario Farm Products Marketing Commission, Fund for Milk and Cream Producers
Ontario Film Development Corporation
Ontario Financing Authority
Ontario Food Terminal Board
Ontario Heritage Foundation
Ontario Housing Corporation (December 31)
Ontario International Trade Corporation
Ontario Junior Farmer Establishment Loan Corporation
Ontario Lottery Corporation
Ontario Northland Transportation Commission (December 31)
Ontario Place Corporation
Ontario Racing Commission
Ontario Realty Corporation
Ontario Stock Yards Board (June 30)
Ontario Training and Adjustment Board
Ontario Transportation Capital Corporation
Ontario Waste Management Corporation
Pension Commission of Ontario
Police Complaints Commissioner
Processing-Vegetable Financial Protection Board, Fund for Producers of Vegetables
for Processing
Province of Ontario Council for the Arts
Provincial Judges Pension Fund, Provincial Judges Pension Board
Public Sector Job Security Fund, Public Sector Labour Market and Productivity
Commission
Public Guardian and Trustee for the Province of Ontario
Tobacco Diversification Fund, Tobacco Diversification Committee

(II) AGENCIES WHOSE ACCOUNTS ARE AUDITED BY ANOTHER AUDITOR UNDER THE DIRECTION OF THE PROVINCIAL AUDITOR

Board of Community Mental Health Clinic, Guelph

Clarke Institute of Psychiatry

Niagara Parks Commission (October 31)

Ontario Cancer Institute

Ontario Mental Health Foundation

St. Clair Parkway Commission (December 31)

St. Lawrence Parks Commission

Toronto Area Transit Operating Authority

Workers' Compensation Board (December 31)

NOTES:

1. Dates in parentheses indicate fiscal periods ending on a date other than March 31.
2. Changes during the 1995/96 fiscal year:
Deletions:
 - Advocacy Commission
 - Rent Review Hearings Board
 - Superannuation Adjustment Fund
3. Inactive agencies as at March 31, 1996:
 - Farm Income Stabilization Commission of Ontario
 - North Pickering Development Corporation
 - Ontario Deposit Insurance Corporation
 - Ontario Telephone Development Corporation

EXHIBIT THREE

Crown Controlled Corporations

CORPORATIONS WHOSE ACCOUNTS ARE AUDITED BY AN AUDITOR OTHER THAN THE PROVINCIAL AUDITOR, WITH FULL ACCESS BY THE PROVINCIAL AUDITOR TO AUDIT REPORTS, WORKING PAPERS, AND OTHER RELATED DOCUMENTS

Big Thunder Sports Park Ltd.
Board of Funeral Services
Board of Governors of The Ontario Institute for Studies in Education
Brock University Foundation
Carleton University Foundation
Dairy Farmers of Ontario
Deposit Insurance Corporation of Ontario
Foundation at Queen's University at Kingston
Lakehead University Foundation
Laurentian University of Sudbury Foundation
McMaster University Foundation
McMichael Canadian Art Collection
Metropolitan Toronto Convention Centre Corporation
Moosonee Development Area Board
Nipissing University Foundation
Ontario Casino Corporation
Ontario Centre for Resource Machinery Technology
Ontario Energy Corporation
Ontario Investment Service Inc.
Ontario Hydro

Ontario Mortgage Corporation
Ontario Municipal Employees Retirement Board
Ontario Pension Board
Ontario Teachers' Pension Plan Board
Ontario Trillium Foundation
Ortech Corporation
Ottawa Congress Centre
Royal Ontario Museum
Ryerson Polytechnic University Foundation
Science North
Teranet Land Information Services Inc.
Toronto Islands Residential Community Trust Corporation
Travel Industry Compensation Fund Corporation
Trent University Foundation
University of Guelph Foundation
University of Ottawa Foundation
University of Toronto Foundation
University of Waterloo Foundation
University of Western Ontario Foundation
University of Windsor Foundation
Waterfront Regeneration Trust Agency
Wilfrid Laurier University Foundation
York University Foundation

NOTE:

Changes during the 1995/96 fiscal year:

Deletions:

- Corporation of the Improvement District of Gauthier
- Corporation of the Improvement District of Matachewan
- Ontario Historical Studies Series
- Ontario Transportation Development Corporation
- Stadium Corporation of Ontario Limited
- Urban Transportation Development Corporation Limited

Changes in Name:

- Big Thunder Sports Park Ltd. (formerly Thunder Bay Ski Jumps Limited)
- Dairy Farmers of Ontario (formerly Ontario Cream Producers' Marketing Board and Ontario Milk Marketing Board)

EXHIBIT FOUR

Treasury Board Orders

AMOUNTS AUTHORIZED AND EXPENDED THEREUNDER YEAR ENDED MARCH 31, 1996

Ministry	Date of Order	Authorized	Expended
		\$	\$
Attorney General	Jan. 30, 1996	37,947,400	37,947,400
	Apr. 23, 1996	<u>13,101,200</u>	<u>13,042,953</u>
		<u>51,048,600</u>	<u>50,990,353</u>
Cabinet Office	Mar. 26, 1996	<u>645,000</u>	<u>578,511</u>
Community and Social Services	Apr. 16, 1996	<u>48,689,100</u>	<u>42,216,502</u>
Consumer and Commercial Relations	Apr. 9, 1996	<u>774,800</u>	<u>517,548</u>
Citizenship, Culture and Recreation	Apr. 16, 1996	<u>73,120,500</u>	<u>72,909,568</u>
Economic Development, Trade and Tourism	Apr. 16, 1996	<u>500,000</u>	<u>303,398</u>
Education and Training	May 16, 1995	22,000,000	22,000,000
	Jul. 17, 1995	18,000,000	17,993,493
	Feb. 13, 1996	35,072,400	35,072,400
	Apr. 9, 1996	<u>2,636,200</u>	<u>1,908,828</u>
		<u>77,708,600</u>	<u>76,974,721</u>
Environment and Energy	Apr. 16, 1996	<u>2,665,100</u>	<u>611,487</u>
Finance	Dec. 5, 1995	28,002,600	24,525,861
	Mar. 18, 1996	<u>19,164,800</u>	<u>19,159,600</u>
		<u>47,167,400</u>	<u>43,685,461</u>

Ministry	Date of Order	Authorized	Expended
		\$	\$
Health	Feb. 27, 1996	412,100	293,548
	Mar. 19, 1996	76,459,900	71,031,614
	Apr. 2, 1996	<u>49,347,500</u>	<u>41,694,066</u>
		<u>126,219,500</u>	<u>113,019,228</u>
Labour	Apr. 2, 1996	<u>629,000</u>	<u>0</u>
Management Board Secretariat	Apr. 9, 1996	<u>41,956,800</u>	<u>35,461,080</u>
Municipal Affairs and Housing	May 16, 1995	65,000,000	65,000,000
	Jul. 17, 1995	220,000,000	220,000,000
	Jan. 30, 1996	145,000,000	143,510,987
	Apr. 16, 1996	<u>1,216,100</u>	<u>45,667</u>
		<u>431,216,100</u>	<u>428,556,654</u>
Ontario Native Affairs Secretariat	Sept. 5, 1995	<u>2,600,000</u>	<u>2,516,000</u>
Natural Resources	Aug. 29, 1995	28,000,000	28,000,000
	Oct. 24, 1995	25,000,000	25,000,000
	Jan. 9, 1996	33,000,000	32,887,499
	Apr. 9, 1996	<u>2,970,700</u>	<u>1,804,857</u>
		<u>88,970,700</u>	<u>87,692,356</u>
Northern Development and Mines	Aug. 15, 1995	40,999,000	35,584,831
	Apr. 16, 1996	<u>9,117,000</u>	<u>9,116,891</u>
		<u>50,116,000</u>	<u>44,701,722</u>
Office of the Premier	Feb. 6, 1996	<u>590,000</u>	<u>247,383</u>
Solicitor General and Correctional Services	Apr. 16, 1996	<u>5,438,000</u>	<u>624,408</u>
Transportation	Feb. 20, 1996 and		
	Feb. 29, 1996	8,642,400	4,156,543
	Mar. 26, 1996	8,341,600	79,466
	Apr. 16, 1996	<u>8,856,300</u>	<u>0</u>
		<u>25,840,300</u>	<u>4,236,009</u>
Total Treasury Board Orders		<u>1,075,895,500</u>	<u>1,005,842,389</u>

EXHIBIT FIVE

Extracts from the *Audit Act*

Definitions

1. In this Act,

“agency of the Crown” means an association, authority, board, commission, corporation, council, foundation, institution, organization or other body,

- (a) whose accounts the Auditor is appointed to audit by its shareholders or by its board of management, board of directors or other governing body,
- (b) whose accounts are audited by the Auditor under any other Act or whose accounts the Auditor is appointed by the Lieutenant Governor in Council to audit,
- (c) whose accounts are audited by an auditor, other than the Auditor, appointed by the Lieutenant Governor in Council, or
- (d) the audit of the accounts of which the Auditor is required to direct or review or in respect of which the auditor’s report and the working papers used in the preparation of the auditor’s statement are required to be made available to the Auditor under any other Act,

but does not include one that the *Crown Agency Act* states is not affected by that Act or that any other Act states is not a Crown agency within the meaning or for the purposes of the *Crown Agency Act*;

“Auditor” means the Provincial Auditor;

“Crown controlled corporation” means a corporation that is not an agency of the Crown and having 50 per cent or more of its issued and outstanding shares vested in Her Majesty in right of Ontario or having the appointment of a majority of its board of directors made or approved by the Lieutenant Governor in Council;

“inspection audit” means an examination of accounting records;

“public money” has the same meaning as in the *Financial Administration Act*. R.S.O. 1990, c. A.35, s. 1.

Audit of
Consolidated
Revenue Fund

9.—(1) The Auditor shall audit, on behalf of the Assembly and in such manner as the Auditor considers necessary, the accounts and records of the

	receipt and disbursement of public money forming part of the Consolidated Revenue Fund whether held in trust or otherwise.
Audit of agencies of the Crown	(2) Where the accounts and financial transactions of an agency of the Crown are not audited by another auditor, the Auditor shall perform the audit, and, despite any other Act, where the accounts and financial transactions of an agency of the Crown are audited by another auditor, the audit shall be performed under the direction of the Auditor and such other auditor shall report to the Auditor.
Audit of Crown controlled corporations	<p>(3) Where the accounts of a Crown controlled corporation are audited other than by the Auditor, the person or persons performing the audit,</p> <p>(a) shall deliver to the Auditor forthwith after completion of the audit a copy of their report of their findings and their recommendations to the management and a copy of the audited financial statements of the corporation;</p> <p>(b) shall make available forthwith to the Auditor, when so requested by the Auditor, all working papers, reports, schedules and other documents in respect of the audit or in respect of any other audit of the corporation specified in the request;</p> <p>(c) shall provide forthwith to the Auditor, when so requested by the Auditor, a full explanation of work performed, tests and examinations made and the results obtained, and any other information within the knowledge of such person or persons in respect of the corporation.</p>
Additional examination and investigation	(4) Where the Auditor is of the opinion that any information, explanation or document that is provided, made available or delivered to him or her by the auditor or auditors referred to in subsection (2) or (3) is insufficient, the Auditor may conduct or cause to be conducted such additional examination and investigation of the records and operations of the agency or corporation as the Auditor considers necessary. R.S.O. 1990, c. A.35, s. 9.
Information and access to records	10. Every ministry of the public service, every agency of the Crown and every Crown controlled corporation shall furnish the Auditor with such information regarding its powers, duties, activities, organization, financial transactions and methods of business as the Auditor from time to time requires, and the Auditor shall be given access to all books, accounts, financial records, reports, files and all other papers, things or property belonging to or in use by the ministry, agency of the Crown or Crown controlled corporation and necessary to the performance of the duties of the Auditor under this Act. R.S.O. 1990, c. A.35, s. 10.
Annual report	12.—(1) The Auditor shall report annually to the Speaker of the Assembly after each fiscal year is closed and the Public Accounts are laid before the

Assembly, but not later than the 31st day of December in each year unless the Public Accounts are not laid before the Assembly by that day, and may make a special report to the Speaker at any time on any matter that in the opinion of the Auditor should not be deferred until the annual report, and the Speaker shall lay each such report before the Assembly forthwith if it is in session or, if not, not later than the tenth day of the next session.

Contents of
report

(2) In the annual report in respect of each fiscal year, the Auditor shall report on,

- (a) the work of the Office of the Auditor, and on whether in carrying on the work of the Office the Auditor received all the information and explanations required;
- (b) the examination of accounts of receipts and disbursements of public money;
- (c) the examination of the statements of Assets and Liabilities, the Consolidated Revenue Fund and Revenue and Expenditure as reported in the Public Accounts, and shall express an opinion as to whether the statements present fairly the financial position of the Province, the results of its operations and the changes in its financial position in accordance with the accounting principles stated in the Public Accounts applied on a basis consistent with that of the preceding fiscal year together with any reservations the Auditor may have;
- (d) all special warrants issued to authorize payments, stating the date of each special warrant, the amount authorized and the amount expended;
- (e) all orders of the Management Board of Cabinet made to authorize payments in excess of appropriations, stating the date of each order, the amount authorized and the amount expended;
- (f) such matters as, in the opinion of the Auditor, should be brought to the attention of the Assembly including, without limiting the generality of the foregoing, any matter related to the audit of agencies of the Crown or Crown controlled corporations or any cases where the Auditor has observed that,
 - (i) accounts were not properly kept or public money was not fully accounted for,
 - (ii) essential records were not maintained or the rules and procedures applied were not sufficient to safeguard and control public property or to effectively check the assessment, collection and proper allocation of revenue or to ensure that expenditures were made only as authorized,
 - (iii) money was expended other than for the purposes for which it was appropriated,

-
- (iv) money was expended without due regard to economy and efficiency, or
 - (v) where procedures could be used to measure and report on the effectiveness of programs, the procedures were not established or, in the opinion of the Auditor, the established procedures were not satisfactory. R.S.O. 1990, c. A.35, s. 12.

Inspection audit

13.—(1) The Auditor may perform an inspection audit in respect of a payment in the form of a grant from the Consolidated Revenue Fund or an agency of the Crown and may require a recipient of such a payment to prepare and to submit to the Auditor a financial statement that sets out the details of the disposition of the payment by the recipient.

Attendance at
standing Public
Accounts
Committee of the
Assembly

16. At the request of the standing Public Accounts Committee of the Assembly, the Auditor and any member of the Office of the Auditor designated by the Auditor shall attend at the meetings of the committee in order,

- (a) to assist the committee in planning the agenda for review by the committee of the Public Accounts and the annual report of the Auditor; and
- (b) to assist the committee during its review of the Public Accounts and the annual report of the Auditor,

and the Auditor shall examine into and report on any matter referred to him or her in respect of the Public Accounts by a resolution of the committee. R.S.O. 1990, c. A.35, s. 16.

Special
assignments

17. The Auditor shall perform such special assignments as may be required by the Assembly, the standing Public Accounts Committee of the Assembly, by resolution of the committee, or by a minister of the Crown in right of Ontario but such special assignments shall not take precedence over the other duties of the Auditor under this Act and the Auditor may decline an assignment by a minister of the Crown that, in the opinion of the Auditor, might conflict with the other duties of the Auditor. R.S.O. 1990, c. A.35, s. 17.

Audit working
papers

19. Audit working papers of the Office of the Auditor shall not be laid before the Assembly or any committee of the Assembly. R.S.O. 1990, c. A.35, s. 19.



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1997 Annual Report of the **Provincial Auditor of Ontario** to the Legislative Assembly





To the Honourable Speaker of the Legislative Assembly

I am pleased to transmit my Annual Report for submission to the Assembly in accordance with the provisions of section 12 of the *Audit Act*.

Erik Peters, FCA
Provincial Auditor

Fall 1997

Copies of this report are available for \$5.00 from the Ontario Government Bookstore, 880 Bay Street, Toronto, or by writing to Publications Ontario, 50 Grosvenor Street, Toronto, Ontario, M7A 1N8. Telephone (416) 326-5300. Toll-free long distance 1-800-668-9938. An electronic version of this report is available on the Internet at **<http://www.gov.on.ca/opa>**

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CHAPTER ONE

Overview

IMPROVING INFORMATION FOR DECISION MAKING

GOOD DECISIONS REQUIRE GOOD INFORMATION

To make the right decisions about the future of each government program or activity, decision makers must be provided with reliable information so that they can assess the economy, efficiency and effectiveness of the program or activity and decide whether it can continue as is, be modified, outsourced or discontinued.

In my *Annual Reports* since 1993 I have stressed that a performance- and results-oriented focus should be the driving force behind reductions in government spending, deficits and debts.

I have urged the government to pursue the following formula which, if achieved, would result in better information for decision making and ultimately better value for money for the taxpayer:

Better accounting for the government's financial affairs
plus
Better accountability for the government's performance in achieving legislated objectives
equals
Better value for the taxpayers' money.

The fundamental requirement for better information is even more important with the government's thrust to shift a portion of the role of the Ontario Public Service from direct program delivery to service management. A consequence of this thrust is that an increasing proportion of public funds will be spent through alternative service delivery arrangements with very little or no direct control over day-to-day operations of service providers. Those service providers can be other levels of government or non-government organizations.

In effect Ontario could well be moving into a two-tier public service consisting of a smaller core public service and a number of arm's length service delivery agents operating in a more "private sector-like" manner. Accountability to the Legislative Assembly will be much more complex in this kind of restructured public service. The government has recognized that achieving better accountability requires clarifying the roles and responsibilities and performance expectations of the parties involved and building effective accountability relationships.

A major concern expressed in my previous *Annual Reports*, and again in this Report, is that the ministries require significant improvements in the quality of information to evaluate whether program services are delivered with due regard for economy and efficiency. Furthermore, procedures to measure and report on program effectiveness are often deficient, especially with regard to programs delivered by separately governed agencies that are funded through transfer payments.

Chapter Three of this Report again contains value for money observations and recommendations for improving the accountability and governance relationships, and the information requirements they entail, between certain ministries and those program service deliverers funded through billions of dollars of transfer payments from those ministries. For example, we found that ministries frequently did not link the funding provided through transfer payments with the service levels and performance of service delivery agents. I believe that the observations and recommendations in this regard are also relevant for any alternative service arrangements to be implemented by the Ontario Public Service. Particularly, decision makers need to know how well, and at what cost, program service is being delivered before any alternative service delivery arrangements are established and what benefits will be obtained by the taxpayers from those new service delivery arrangements, particularly where financial benefits are to be shared with a non-government party.

The current *Audit Act* which governs our audit activities for the Legislative Assembly does not permit us to carry out value for money audits of separately governed transfer payment recipient organizations that are given government funds to achieve legislated purposes. Each year these organizations receive about \$28 billion, which represents about half of the government's annual spending. Permitting my Office to carry out value for money audits of such transfer payment recipient organizations would enable us to more comprehensively and effectively serve the Legislative Assembly, the Standing Committee on Public Accounts and, through them, the taxpayers of Ontario.

ACCOUNTING AND FINANCIAL INFORMATION

I am pleased to report that my auditor's report on the Financial Statements of Ontario for the year ended March 31, 1997 is clear of any qualifications or reservations.

SIGNIFICANT PROGRESS HAS BEEN MADE

As recommended by me and by the Ontario Financial Review Commission in 1995, the government has for the second consecutive year presented the Legislative Assembly with an Annual Report that enables the legislators and the public to better understand and evaluate the province's financial performance, activities and condition.

The Financial Statements of Ontario since 1994, and the *Ontario Budget* since 1996, have been prepared, on my urging, in accordance with the accounting principles recommended for governments by the Public Sector Accounting and Auditing Board (PSAAB) of the Canadian Institute of Chartered Accountants. With the PSAAB basis of accounting being used in both

the *Budget* and the province's Financial Statements, the Legislative Assembly is more readily able to compare actual and planned financial performance and results.

Notwithstanding the progress that has been made, there are still areas where improvements are needed. Although summary reconciliations to the PSAAB basis of accounting are provided, the *Estimates* that outline ministry spending on a program-by-program basis are still being prepared on the modified cash basis of accounting. Consequently, legislative spending authority and appropriation controls remain to be converted to the PSAAB basis of accounting. I understand that the government is working toward adopting PSAAB standards for spending authority.

From the several recommendations made by the Ontario Financial Review Commission that remain to be implemented, I would highlight the one dealing with the need to develop an integrated government-wide financial system. In this regard, I note that an implementation plan and timetable have been developed and that a new senior level position has been established to provide leadership for this important project.

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ACCOUNTABILITY

Chapter Two of this Report provides the current status of the many encouraging steps that the government has taken during the past few years toward better accountability to the Legislative Assembly and the taxpayers for performance and results. These steps include the government's firm commitment toward continuously improving the business plans that the ministries prepare and the enactment of a *Public Sector Accountability Act*.

Further improvements to public accountability would be achieved if the amendments to the *Audit Act*, proposed by my Office and endorsed by the Standing Committee on Public Accounts, were enacted.

Chapter Two also indicates that improvements continue to be required in the current legislative estimates review process, which both the Ontario Financial Review Commission and my Office have viewed as requiring significant improvement to be made effective.

VALUE FOR MONEY AUDIT RECOMMENDATIONS

THE AUDITING AND REPORTING PROCESS

Because of the size and complexity of the province's operations and administration, it is impossible to audit each program every year. Instead, the Office conducts selected audits in a cycle, so that all major programs are considered for review every five years. The audits covered by this *Annual Report* were selected by the Office's senior management based on criteria such as financial impact, significance to the Legislative Assembly, public sensitivity or safety, and past audit reports.

Before beginning an audit, office staff meet with auditee representatives to discuss the focus of the audit in general terms. During the audit, office staff maintain an ongoing dialogue with the auditee to review the progress of the audit and ensure open lines of communication. After the audit staff conclude their on-site work, a draft report is prepared, reviewed internally and discussed with the auditee. A management response to our recommendations is received and incorporated into the final draft report. The Provincial Auditor and senior office staff meet with the deputy minister or agency head to discuss the final draft report, and the auditee is given an opportunity to finalize the responses. Those responses are provided with the report sections included in this *Annual Report*.

Under section 12 of the *Audit Act*, the Provincial Auditor is required to report annually to the Speaker of the Legislative Assembly.

Immediately prior to the tabling of the *Annual Report*, separate and simultaneous lockups are arranged for members of the Legislative Assembly and their research staff, representatives of the media, and representatives of audited ministries and agencies. When the lockups conclude, the Provincial Auditor is available to answer questions from media representatives.

Each year, the Standing Committee on Public Accounts selects sections of the Provincial Auditor's *Annual Report* for review and calls upon representatives of the audited ministries and agencies to attend as witnesses.

I am pleased to acknowledge the active cooperation of the staff of audited ministries and agencies throughout this year's process. I would also like to express my appreciation to the members of my Office for their diligent and professional contribution to this Report.

SUMMARY OF RECOMMENDATIONS

The following are summaries of the 13 reports on value for money audits contained in Chapter Three of this *Annual Report*. The auditees' responses in Chapter Three indicate that action to implement many of our recommendations is planned or has already been taken.

3.01 Ministry of the Attorney General Courts Administration Program

The Courts Administration Program supports the operations of the court system in Ontario through a network of approximately 250 courthouses and collects fines owed to the province. Total program expenditures for the 1996/97 fiscal year were \$252 million, and revenues collected totalled \$247 million for the year.

We assessed whether: program resources were managed with due regard for economy and efficiency; adequate procedures were in place to measure and report on the Program's effectiveness; and there were proper controls over the collection of fines.

We found that the present structure of the courts administration system is complicated by the absence of a clear division of authority and responsibility between the Ministry and the Judiciary. More clearly defined accountability is needed to ensure that program resources are managed with due regard for economy and efficiency. Other key recommendations are for the Ministry:

- to develop performance indicators to measure and report on the Program's contribution to a modern, more accessible and more effective justice system;

-
- to work with the Judiciary to provide better information for dealing with the backlogs of criminal cases; and
 - to improve the collection of fines by transferring overdue fines to the Central Collection Service on a timely basis.

3.02 Ministry of Citizenship, Culture and Recreation

Culture Activity

The purpose of the Ministry's Culture Activity is to encourage the arts, support cultural industries, preserve Ontario's heritage, advance the public library system and oversee cultural agencies. For the 1996/97 fiscal year, expenditures for cultural activities were \$193 million.

We assessed whether: resources were managed with due regard for economy and efficiency; a proper framework was in place to hold cultural agencies accountable for their expenditure of public funds; and satisfactory procedures were in place to measure and report on the effectiveness of the cultural activities.

We recommended that the Ministry:

- strengthen grant eligibility review procedures in order to ensure that only eligible recipients and costs are funded;
- improve the assessment of grant requests to ensure that funding is allocated on a more reasonable and equitable basis;
- strengthen its framework for holding cultural agencies accountable for their expenditures; and
- develop and implement a more comprehensive performance measurement system for assessing the effectiveness of the Culture Activity.

3.03 Ministry of Community and Social Services

Child and Family Intervention Program

The Child and Family Intervention program provides transfer payments to approximately 200 community-based agencies that offer a range of services designed to alleviate social, emotional and/or behavioural problems experienced by children and their families. These include family breakdown, physical or sexual abuse, drug abuse, attempted suicide and depression. Services provided include psychiatric therapy, counselling, skills training and education, as well as residential services to children who require more intensive assistance. For the 1996/97 fiscal year, program expenditures totalled approximately \$189 million, of which approximately \$69 million was spent for residential services.

Our audit assessed whether the Ministry's administrative procedures were adequate to ensure that transfer payments to agencies were reasonable and satisfactorily controlled and whether the quality of services provided was monitored and assessed.

We concluded that the Ministry's administrative procedures required significant improvements to ensure that transfer payments are reasonable and satisfactorily controlled and that the quality of services provided is monitored and assessed. Consequently, we recommended that the Ministry ensure that:

-
- funding decisions are based on sufficiently detailed and relevant financial and operational information from agencies;
 - program surpluses accumulated by agencies are identified and recovered on a timely basis; and
 - service quality is in accordance with program expectations.

3.04 Ministry of Community and Social Services

Transfer Payment Agency Accountability and Governance

The Ministry of Community and Social Services provides strategic direction and annual funding for service planning and delivery to approximately 3,400 community-based, mostly non-profit agencies. Ministry transfers to all of its agencies for the 1996/97 fiscal year totalled approximately \$2.1 billion.

Our audit objectives were to assess whether the Ministry had established and communicated to its transfer payment agencies reasonable expectations for their accountability to the Ministry as well as for agency governance, and whether procedures were in place to determine if transfer payment recipient agencies were meeting the Ministry's expectations.

We found that the Ministry needs to significantly improve transfer payment agency accountability and encourage effective agency governance. Accordingly, we recommended that the Ministry:

- clearly define and promulgate the roles and responsibilities of both the Ministry and the boards of directors for ensuring that program service delivery is achieved economically, efficiently and effectively;
- establish measurable and meaningful ministry expectations for service outcomes or communicating minimum or acceptable levels of care; and
- periodically evaluate service outcomes or, alternatively, the quality of services provided and agency service delivery costs to ensure that funding is reasonable.

3.05 Ministry of Community and Social Services

Young Offender Services Program

The Young Offender Services program provides services primarily to youths 12 to 15 years old who are charged under the federal *Young Offenders Act* with a *Criminal Code of Canada* offence or under the *Provincial Offences Act*. The program protects society through a combination of activities that provide for the safety and security of offenders and actively assist, support and encourage the offenders to become law-abiding citizens. For the 1996/97 fiscal year, the Ministry spent \$127 million on young offender services, including \$79 million in transfer payments to approximately 100 agencies.

Our audit objectives were to assess whether the Ministry's procedures were adequate to ensure compliance with legislative and judicial requirements and program policies and procedures and whether the program was delivered with due regard for economy, efficiency and effectiveness.

Our most significant findings were that the Ministry needs to strengthen its procedures for case management, setting appropriate funding levels and determining program effectiveness. As a

result, we recommended the Ministry ensure that:

- required offender risk/needs assessments and case management plans are initiated, completed and updated on a timely basis;
- case files demonstrate compliance with all terms and conditions of probation and community service orders;
- funding approvals are commensurate with the services provided by agencies; and
- program outcome indicators are developed and implemented to measure and evaluate program effectiveness.

3.06 Ministry of Education and Training Ontario Student Assistance Program

The Ontario Student Assistance Program is a federally and provincially funded program that provides needs-based financial assistance to students to enable them to attend an approved postsecondary institution. Provincial financial assistance to students is provided primarily through loans under the Ontario Student Loans program. As of March 31, 1997, some 438,000 Ontario Student Loans totalling \$2,195 million were guaranteed to banks by the province. About 32%, or \$714 million, was loaned to students who have completed their studies and are repaying their loans. It is expected that approximately \$800 million, or over half of the remaining loans, will be forgiven in the future. Program expenditures for the 1996/97 fiscal year were \$335 million.

Our audit objectives included assessing whether adequate systems and procedures were in place to ensure that the Program was being delivered economically, efficiently and in accordance with its legislated authority and approved policies and guidelines.

Our most significant recommendations were for the Ministry:

- to introduce several measures to reduce the risk and cost of defaulted student loans;
- to make much more timely and effective efforts to identify and recover over \$100 million in loan, loan forgiveness and bursary overpayments, and defaulted student loans; and
- to better verify information provided by students in their applications for assistance and more effectively oversee the program delivery activities of postsecondary institutions.

3.07 Ministry of Environment and Energy Conservation and Prevention Division

The Conservation and Prevention Division is responsible for promoting the reduction of waste and pollutants and the conservation of energy and water. It also administers the *Environmental Assessment Act* and provides funding to municipalities for water and sewage capital projects. For the 1996/97 fiscal year, the Division had about 180 staff and total expenditures of \$224 million, of which \$200 million related to grants provided to municipalities for waste reduction and for water and sewage capital projects.

Our audit objectives were to assess whether satisfactory procedures were in place to measure and report on the performance of the Division in contributing to the effectiveness of the Minis-

try in protecting the environment and human health and whether grants were disbursed with due regard for economy.

We recommended that the Ministry:

- measure and report on its effectiveness in meeting the provincial waste reduction goal and work with municipalities to reduce the cost of collecting and processing recycled materials in their communities;
- establish performance indicators to measure and report on the effectiveness of the environmental assessment process and monitor compliance with the terms and conditions of approved projects;
- require municipalities to implement, where appropriate, water conservation and system optimization measures before providing any funding for water or sewage expansion projects; and
- better assess municipal eligibility and funding needs for water and sewage projects and ensure timely identification and recovery of project expenditure overpayments.

3.08 Ministry of Finance Employer Health Tax

The *Employer Health Tax Act* requires all employers who have a permanent establishment in Ontario to remit employer health tax on the total Ontario remuneration paid to employees. Employer health tax also applies to all self-employed individuals with over \$40,000 in net self-employment income. The Ministry's Employer Health Tax Branch has primary responsibility for the administration and enforcement of the Act. For the 1996/97 fiscal year, the Ministry collected \$2.8 billion in employer health tax and the Branch's expenditures were \$11.9 million.

We assessed the adequacy of the Ministry's tax collection procedures and concluded that tax payments were being deposited promptly and credited to the appropriate taxpayer accounts and that employer health tax returns were being processed accurately. Additionally, based on the number of field audit staff and the number of field audits being conducted, the overall level of audit coverage was adequate.

However, in order to better detect and follow up on unpaid taxes, we recommended that the Ministry:

- improve the effectiveness of field audits by using all available, pertinent information and a more formalized, risk-based approach to select audit candidates with a high potential for reassessment;
- set up a desk audit function to identify and follow up on inconsistencies and anomalies in employer health tax returns; and
- compare the information in its computer database with other relevant and available information to identify unreported taxes owed by unregistered, self-employed taxpayers and potentially amounting to several million dollars annually.

3.09 Ministry of Health

Mental Health Program - Community Based Services Activity

The Community Based Services Activity is administered by the Mental Health Programs and Services Group. The goal of the Activity is to develop a system that will support people with mental illness in living fulfilling lives in the community. The Activity funds community mental health programs which include community-based mental health services, children's mental health programs, residential Homes for Special Care and the community psychiatric payment program. For the 1996/97 fiscal year, transfer payments to community mental health service providers totalled approximately \$176 million.

We assessed whether the Ministry had adequate procedures in place: to measure and report on the effectiveness of the Activity; to ensure compliance with legislation; and to ensure that policies and procedures for the approval, processing and payment of transfer payments were adequate and were being followed in an economic and efficient manner.

We found that significant improvements were required to adequately monitor, assess and report on the Activity's effectiveness in meeting its goal of developing a system that will support people with mental illness in living fulfilling lives in the community.

In particular, we recommended that the Ministry:

- compare the costs and outcomes of community-based care with the costs and outcomes of institutional care for various levels of services/care;
- define acceptable levels of care, establish benchmarks and standardized outcome measures for community-based mental health services and monitor service providers against them; and
- ensure that funding is commensurate with services provided.

3.10 Ministry of Health

Public Health Activity

The Ministry's Public Health Branch, under the direction of the Chief Medical Officer of Health, administers the Public Health Activity, which provides funding for programs designed to maintain population health through health protection, health promotion and disease prevention.

For the 1996/97 fiscal year, Public Health Activity expenditures totalled \$283 million, of which approximately \$237 million was spent on transfer payments for the delivery of mandatory programs and services; \$40 million for the purchase of vaccines; and \$6 million for branch operating expenditures.

We assessed whether the Ministry had adequate policies and procedures in place: to ensure that public health programs were funded and delivered with due regard for economy and efficiency and in accordance with applicable legislation; and to measure and report on the effectiveness of provincially funded public health programs.

We found that the Public Health Branch had recently introduced a number of significant initiatives. These included mounting hepatitis B and measles immunization campaigns for children; promoting influenza and pneumococcal vaccines for the elderly; addressing the causes of vaccine wastage; and adopting food safety protocols.

However, to help ensure that it meets its goal of maintaining population health through health protection, health promotion and disease prevention, we recommended that the Ministry:

- ensure that funding to boards of health is allocated equitably;
- ensure that assessments of the immunization status of children are being completed by boards of health in accordance with legislation;
- improve the quality of information available on the delivery and coverage of immunization programs for children and adults and determine whether costs are reasonable;
- improve contact tracing and case management programs for tuberculosis and sexually transmitted diseases; and
- improve the quality of food safety inspections by boards of health.

3.11 Management Board Secretariat Employee Health Care Benefits

The Ontario government provides health care benefit plans for its 71,000 current and 45,000 retired employees and their eligible dependants. Eligible plan members are entitled to partial reimbursement for dental costs as well as for supplementary health expenses such as drugs and vision care. Life insurance coverage is also provided along with long-term disability protection for current employees. The most recent annual cost of providing these benefits was \$192 million.

We assessed whether the Secretariat had adequate procedures in place to manage the health care benefit plans with due regard for economy and in accordance with the terms of the plans. We concluded that to slow the escalating rate of growth in benefit costs, the Secretariat needs to more actively pursue cost-containment strategies, particularly those that do not require union ratification.

We recommended that the Secretariat:

- help ensure claims are paid only for eligible recipients by periodically obtaining information on spousal insurance coverage and the eligibility of family members;
- implement an early intervention program to help reduce short-term absences and identify potential long-term disability claims at an earlier stage; and
- periodically obtain appropriate audit assurance that its insurance carriers are processing claims submitted by employees in accordance with the employee benefit plans.

3.12 Ontario Housing Corporation and Metropolitan Toronto Housing Authority Capital Asset Management

The Ontario Housing Corporation is an agency of the Ministry of Municipal Affairs and Housing and is funded through rental income and subsidies from the provincial and federal governments. The Corporation owns approximately 84,000 rent-geared-to-income housing units which are managed by 54 local housing authorities, including Metropolitan Toronto Housing Authority. These units provide housing for about 250,000 tenants in 310 communities. The Corporation's

property operating expenditures, excluding municipal taxes and depreciation, were \$382 million for the year ended December 31, 1996.

Our audit objective included assessing whether the Corporation had in place systems and procedures to ensure that its rental properties were repaired and maintained economically, efficiently and effectively.

Our more significant recommendations were that the Ontario Housing Corporation and Metropolitan Toronto Housing Authority need to strengthen procedures and operating practices:

- to better assess building conditions and estimate the costs of needed repairs in order to effectively establish priorities for capital repairs;
- to ensure compliance with legislation and corporate policies governing health and safety matters such as the *Ontario Fire Code* and asbestos management; and
- to achieve further savings of several million dollars in utility and maintenance costs.

We also determined the progress made in addressing pertinent recommendations and issues arising from a major review of Metropolitan Toronto Housing Authority operations conducted by outside consultants in 1994. While the Metropolitan Toronto Housing Authority has made significant progress in addressing concerns raised as a result of that review, the benefits of many of the changes will only be realized in 1997 and beyond. Some important changes were still being implemented.

3.13 Ministry of Transportation Commercial Vehicle Safety and Regulation

The Ministry oversees the intercity bus and truck industries, administers the licensing of for-hire transport, and enforces legislation relating to driver and vehicle safety, vehicle weight and size, and the movement of goods. For the 1996/97 fiscal year, the Ministry spent \$21.4 million on commercial vehicle safety activities.

We assessed whether the Ministry had adequate procedures in place: to measure and report on the program's effectiveness in ensuring commercial vehicle safety; to ensure compliance with legislation and ministry policies; and to ensure that resources were managed with due regard for economy and efficiency.

We recommended that the Ministry:

- improve its ability to assess the effectiveness of the new commercial vehicle safety initiatives;
- ensure that its inspection process results in reducing the incidents of non-compliance with legislation by setting minimum standards for the number of vehicles and carriers selected for truck and bus inspections, vehicle weight inspections and facility audits;
- strengthen the enforcement process to ensure that carriers are sanctioned on a timely basis and unsafe vehicles are removed from the road; and
- strengthen control procedures over safety certificates to ensure that only properly inspected commercial vehicles are safety certified.

CHAPTER TWO

Toward Better Accountability

2.01

ACCOUNTABILITY AND DECISION MAKING

As advocated in my annual reports since 1993, an improved accountability framework, preferably anchored in legislation, is necessary for the effective management of government finances, spending and resources. Such a framework would better allow the Legislature to assess whether all funds have been and are being spent prudently for the intended legislated purposes and would result in better information being provided to the ministers and the government for decision making.

To make the right decisions, decision makers must be provided with reliable information so they can assess the performance of each government program and decide whether it should continue as is, be modified, outsourced or discontinued. In summary, this results-oriented focus should be the driving force behind prudent management of financial, human and physical government resources and reductions in government spending, deficits and debts.

CURRENT ACCOUNTABILITY INITIATIVES

During the past few years, several encouraging steps have been taken toward better accountability to the Legislature and the taxpayers for performance and results by ministries, agencies and the government as a whole. On July 3, 1997, Management Board Secretariat provided my Office with the following comments regarding several accountability initiatives.

GENERAL

The broad thrust of recommendations from the Office of the Provincial Auditor and the Ontario Financial Review Commission has been towards substantially improving the accountability of the government to both the Legislature and the public at large. At the heart of this have been recommendations to increase the availability and timeliness of the detailed financial and performance measurement information presented by the government. Both the Office of the Provincial Auditor and the Ontario Financial Review Commission stressed the need for improvements in internal decision making throughout the Government of Ontario, particularly the introduction of rigorous planning based on financial and performance measurement data.

During the past two years, the government has undertaken a wide range of measures aimed at improving the provision and use of information, both internally and to the Legislature and the public. These efforts were intended to improve decision making and accountability.

FINANCIAL INFORMATION

A primary objective of the government has been to improve the quality of financial information available to the Legislature and all Ontarians. The implementation of PSAAB-based [Public Sector Auditing and Accounting Board] accounting for the Provincial Budget, Ontario Finances quarterly reporting, Ontario Public Accounts summary statements and other public reporting has been a key step in this regard. The adoption of a PSAAB accounting framework responds to the strong recommendations of both the Office of the Provincial Auditor and the Ontario Financial Review Commission.

BUSINESS PLANS

The government has also implemented a comprehensive and rigorous business planning process, both as the centre-piece of government's financial and policy decision making and for public reporting. Ministries present business plans to Management Board and Cabinet on an annual basis. These plans are used for determining ministry financial allocations and policy directions.

Published business plans for each ministry have been tabled in the Legislature for the 1996/97 and 1997/98 fiscal years, with a firm commitment towards continuously improving annual plans. Published business plans clearly outline the core businesses, key strategies, and financial allocations and human resource complements associated with each ministry.

The government has also undertaken public consultations on its published business plans, seeking feedback on both ministry plans and on the government's overall financial and operational directions. Over the balance of the 1997/98 fiscal year, ministries will be actively working with client groups to review and refine business plans, particularly in terms of key objectives and performance measures. Tools such as a website are also being used to seek the views of the general public.

For 1997/98, the government is introducing a brief summary of business plan commitments, called Making Progress, Managing Change: A Report to Ontario Taxpayers. This document provides both legislators and the general public with an accessible compilation of the key themes from ministry business plans, emphasizing key performance measures for the 1997/98 fiscal year.

PUBLIC SECTOR ACCOUNTABILITY ACT

The 1997 Ontario Budget proposed the Public Sector Accountability Act to ensure that each publicly-funded organization prepares a specific

business plan and that these plans are made available to the Legislature and the public. The Act will require these organizations to report on their financial activities in accordance with the recommendations of the Canadian Institute of Chartered Accountants. The Act will also require these organizations to prepare a corporate plan and annual report which details objectives, resources required and performance against the plan. Benchmarks, against both private and public sector practices, will also be required.

The Act will fulfill the intent of recommendation 1.18 of the Ontario Financial Review Commission [which called for the requirement for business plans at the government, ministry and agency level to be legislated]. The Minister of Finance has indicated he will introduce the Public Sector Accountability Act in the Legislature's fall session of this year.

2.01

AUDIT ACT

Enactment of the proposed *Public Sector Accountability Act* will represent a very positive step in enhancing public accountability. Additional improvements would be made by enacting proposed amendments to the *Audit Act*.

As detailed in last year's *Annual Report* and Chapter Seven of this *Report*, after public hearings on this issue in June 1996, I submitted to the Standing Committee on Public Accounts specific draft proposals for amending the *Audit Act*. The proposed amendments were drafted by Legislative Counsel in consultation with my Office, and their primary objective was to provide my Office with the discretionary authority to perform value for money audits of organizations that receive significant conditional grants (transfer payments) from the province. Such transfer payments represent about 50% of the provincial government's annual spending.

These proposed amendments were accepted by the Committee which, in turn, provided them to the Minister of Finance. In a September 1996 letter to the Chair of the Committee, the Minister responded, in part, as follows:

The draft bill to amend the Audit Act as developed by the Provincial Auditor, in consultation with the Office of the Legislative Counsel, represents a significant step towards the fundamental reform of the public sector accountability system and I agree with the principles upon which it is based.

With respect to the amendments affecting the auditing of transfer payment recipients, it should be noted that a number of initiatives are underway, including the "Who Does What" discussions, which may result in a significant restructuring of the nature and magnitude of the Province's transfer payment arrangements. It might be more appropriate to assess needed changes to the auditing of transfer payments following this restructuring.

In a subsequent meeting with the Minister to discuss the timeframe for introducing these amendments, he stated that his preference was to await the outcome of the transfer payment restructuring initiatives which he expected to be substantially completed in the fall of 1997, before considering possible amendments to the *Audit Act*.

INFORMATION FOR BETTER ACCOUNTABILITY

PERFORMANCE AND FINANCIAL INFORMATION

In 1997, as in prior years, many of our value for money audits included an assessment of the quality of performance information available for planning and decision making for the programs we audited.

In general, three categories of performance and financial information are needed for planning and decision making—inputs, outputs and outcomes. Inputs refer to the amount of financial and other resources that are used to deliver specific services or programs/activities. Outputs are the quantity and quality of services or goods delivered in relation to the resources deployed. Outcomes refer to the extent to which programs/activities are meeting their objectives in terms of intended program results.

Outputs, together with the related ratios and comparisons derived therefrom, are indicators of efficiency, whereas outcomes are indicators of effectiveness. In evaluating outcomes, decision makers are not only interested in whether a program/activity is effective in meeting its objectives, but also whether:

- the costs of achieving the outcomes are justified by the value of the results obtained; and
- the same outcomes could be achieved at less cost.

It should be noted that, in some cases, outcomes are difficult to quantify since they deal with qualitative measures related to improvements in desirable society benefits (for example, improvements in the quality of areas such as education, drinking water, community safety and food safety). This, coupled with the fact that, in other cases, factors external to a program/activity contribute to the effectiveness of achieving an objective (for example, economic conditions can lead to increased or decreased tourism), can, at times, make the measurement of outcomes or effectiveness very complex and possibly too costly.

ALTERNATIVE SERVICE DELIVERY

In recent years, all ministries have been affected by the government's policy of restructuring, which involves the creation of a new Ontario Public Service (OPS) that: focuses on core businesses; improves service delivery to the public; is smaller, more flexible and efficient; encourages coordination/integration across ministries; and has clearly defined roles and responsibilities.

In many cases, this restructuring involves the management and delivery of programs and services through alternative arrangements, commonly referred to as "alternative service delivery." Such arrangements include partnering, outsourcing and complete privatization.

Partnering can consist of several ministries within the OPS sharing services and providing a "single window" service delivery or establishing a single ministry to provide common services. It can also entail arrangements between different levels of government to meet common objectives and save money by pooling expertise or harmonizing service delivery.

Outsourcing involves a ministry or a central agency entering into a contract with a private sector party for the delivery of specific services or the delivery of a common service across the OPS.

Outsourcing also includes partnerships with private, non-government or voluntary partners to deliver program services. In such partnerships, risks and rewards are to be shared between the partners. The principal risks and rewards that would be shared with a non-government partner are those pertaining to:

- ownership — that is, the non-government partner should make a reasonable equity investment in the partnership with the opportunity of making a return on that investment;
- operations — that is, the non-government partner should assume all or most of the risk that the revenues will cover expenditures while providing stipulated service levels; and
- financing — that is, the non-government partner should arrange for a substantial portion, if not all, of the financing, without government guarantees or financial obligation, at borrowing costs which do not negate the financial benefits to the government from the partnership.

Because ministers remain accountable to the Legislature in any outsourcing arrangement, the government has issued guidelines to ensure that government objectives and expected service levels are met and that contracts stipulate in reasonable detail:

- the standards to be maintained;
- the monitoring mechanisms to be used, including the timing, nature and quality of information requirements, data retention and rights to evaluate and audit compliance with those standards; and
- the remedial action to be imposed, including penalties, where compliance is not achieved.

As is our practice, my Office will use any directives or guidelines for outsourcing issued by the government to set criteria (audit expectations) for the value for money audit of any outsourcing arrangement and its performance.

Complete privatization is an option in cases where programs and services are deemed to no longer serve a needed public policy objective. With this option, direct accountability through a minister to the Legislative Assembly is significantly limited or ceases all together.

CONCERNS

We would expect decisions for choosing a method of alternative service delivery to be grounded in a sound business case, whereby the costs and benefits of current and alternative methods of delivery are compared. In order to prepare such a case, ministry decision makers should have reliable information regarding the performance of the current methods of program or service delivery.

In other cases, where alternative service delivery is not a factor, reliable performance information is necessary to assist decision makers in evaluating the current delivery of services and programs and their future.

The continuing development and refinement of business plans by ministries, which include performance measures, is helpful in this regard. However, improvements in such results-based

information are required, as recognized by Management Board. The current service delivery arrangements between ministries and certain transfer payment recipients are very similar to the proposed arrangements for alternative service delivery. The Management Board Secretariat issued frameworks and guidance for transfer payment accountability in 1989, which are currently being updated, and for alternative service delivery in 1996.

Many of our value for money audits reported on in previous annual reports have commented on insufficient measuring and reporting by ministries on the performance and effectiveness of government programs and made recommendations to ensure that appropriate accountability is established and that funding of transfer payment recipients is commensurate with service levels and quality.

Again this year, many sections of Chapter Three of this Report set out observations and related recommendations dealing with the need for improvements in these areas.

CONCLUSION

I am encouraged by steps that have been taken by government during the past few years toward better accountability to the Legislature and the taxpayers for performance and results.

Regarding the preparation and publishing of annual business plans, Management Board Secretariat has referred to the government's firm commitment toward continuously improving these plans. In this regard, Chapter Three of this Report contains a number of recommendations pertaining to the measurement and reporting of performance and effectiveness at the program level in government ministries.

Enactment of the proposed *Public Sector Accountability Act* is expected to enhance public accountability. Further improvement to public accountability would be achieved if proposed amendments to the *Audit Act* were enacted. These amendments are designed to allow my Office to better serve the Legislative Assembly and, through it, the taxpayers of Ontario.

Chapter Three also contains our observations and recommendations for improving the accountability relationship between ministries and those program service deliverers that ministries fund through transfer payments. We believe these observations and recommendations are also relevant for the alternative service delivery arrangements to be implemented by the OPS.

Legislative Estimates Review Process

2.02

In my *1995 Annual Report*, I reported on the results of my Office's review of the legislative estimates review process. The primary focus of that review was to determine whether the 1989 revisions to the estimates review process had resulted in the anticipated improvement in the Legislature's ability to scrutinize and evaluate the ministries' proposed spending plans. As part of that review, my Office interviewed nine MPPs, three from each political party, who had served on the Standing Committee on Estimates. My staff also conducted research into the initiatives being undertaken in some other large Canadian jurisdictions as well as in the United Kingdom, Australia and New Zealand.

Our review indicated that improvements could and should be made to Ontario's legislative estimates review process principally in the following areas.

- The legislative review should be timed in such a way that the results of the MPPs' deliberations can influence the government's decision making.
- Those ministries selected for review should provide future-oriented business plans and better information on performance, both expected and actually achieved, as well as on how legislative objectives will be met.

I urged that revisions to the estimates review process be considered by the Standing Committees on Estimates, Finance and Economic Affairs, and Public Accounts. On April 6, 1996, I appeared before the Standing Committee on Estimates to discuss my suggestions with committee members.

ONTARIO FINANCIAL REVIEW COMMISSION

In November 1995, after three months of study, the Ontario Financial Review Commission (OFRC) submitted its final report entitled "Beyond the Numbers: a New Financial Management and Accountability Framework for Ontario" to the Minister of Finance. In its report, the OFRC made a number of recommendations directed at making government in Ontario more open and accountable. One recommendation was that a review be carried out with the goal of ending the current estimates process, which the OFRC considered ineffective. In the May 1996 *Ontario Budget*, the government responded to this recommendation as follows: "The government will work with the Legislature towards improving its ability to effectively review ministries' spending activities."

Given the concerns expressed by both my Office and the OFRC about the ineffectiveness of the legislative estimates review process, I noted with interest that:

-
- the Ministry of Finance's 1997/98 Business Plan states that "a top priority is the ongoing implementation of recommendations made by the OFRC, for which the government has expressed its strong support"; and
 - in response to our 1997 request for an update of action taken on both my Office's and the OFRC's concerns about the legislative estimates review process, the Management Board Secretariat responded as follows:

We have spoken with the Office of the Government House Leader and raised the issue of potential additional work with the Legislature towards future reforms of the Legislative Review of Estimates. Among the government's key aims will be the inclusion of PSAAB-based information in the Printed Estimates and a formal link to business plans. The eventual nature and timing of changes will of course depend critically on the views of the Legislature as a whole.

Good progress has been made by ministries in developing and publishing more future- and results-oriented business plans. However, improvements to the legislative estimates review process are still required to make it more timely and effective for government decision making.

CHAPTER THREE



Reports on Value for Money Audits

Courts Administration Program

3.01

In Ontario the court system comprises the Provincial Division, the General Division and the Ontario Court of Appeal.

The majority of criminal cases are tried in the Provincial Division courts. This Division also deals with provincial offence charges such as those under the *Highway Traffic Act* and *Liquor Licensing Act* and certain family law matters. The General Division courts try more serious criminal cases and civil matters including small claims. The Court of Appeal hears both criminal and civil appeals. In this section, we refer to the courts as the Judiciary and the Chief Justices as the Heads of Court.

The Courts Administration Program supports the operations of the court system through a network of approximately 250 courthouses. Its primary functions include:

- providing courtroom staff—clerks, interpreters and reporters;
- preparing enforcement documentation and enforcing orders, maintaining court records and files, and serving the public and the Bar;
- providing support services such as trial coordination, court statistics, caseload management, and information technology to both federally and provincially appointed Judiciary; and
- collecting fines.

Total program expenditures for the 1996/97 fiscal year were \$252 million, \$188 million of which comprised salaries and benefits for the Judiciary (\$68 million) and for the Program's staff (\$120 million). Revenues collected totalled \$247 million for the year.

OBJECTIVES AND SCOPE

Our audit objectives were to assess whether the Ministry and, where appropriate, the Ministry in conjunction with the Judiciary, had adequate procedures in place:

- to ensure that the Program's resources were managed with due regard for economy and efficiency;
- to measure and report on the effectiveness of the Program's contribution toward achieving the Ministry's goal of becoming a modern, more accessible and more effective justice system; and
- to ensure proper control over the collection of fines.

Our audit included interviews with and surveys of ministry officials and the Judiciary, as well as an examination of files and documentation at the Ministry's head office and a number of regional offices and courthouses. We reviewed recent audits performed by the Ministry's Audit Services Branch and noted that it had not performed any recent work in the areas we audited.

We also received comments from the Heads of Court, who identified common concerns about the administration of courts in such areas as accountability, budget matters, availability of judges, technology, information systems and training. We took their comments into consideration regarding areas within the scope of our audit.

OVERALL AUDIT OBSERVATIONS

Our audit was conducted during a time when the justice system was undergoing major restructuring. A number of significant initiatives were already under way and their successful implementation should serve to address many of our concerns.

The present structure of the courts administration system is complicated by the absence of a clear division of authority and responsibility between the Ministry and the Judiciary. More clearly defined accountability is needed to ensure that program resources are managed with due regard for economy and efficiency.

Many courts still have serious backlogs of criminal cases. While most of the factors which prevent the timely disposition of cases are beyond the control of the Program, it could assist the Judiciary in dealing with backlogs by providing better information on the causes of delays.

Additionally, to achieve its goal of becoming a modern, more accessible and more effective justice system, the Ministry and the Judiciary need:

- to work together to improve the quality of information produced by the Program for managing caseload and for case management; and
- to develop performance indicators to measure the Program's contribution toward that goal.

As well, better information is needed for financial planning and decision making to enable the Ministry to assess whether desired results are achieved at appropriate costs.

Both the Ministry and the Judiciary have identified the need for improved technology and the upgrading of existing equipment, and we agree that such changes are necessary.

To improve the collection of fines, the Ministry needs to transfer overdue fines to the Central Collection Service on a timely basis. To a great extent, however, this will not be possible until Management Board Secretariat completes the process of selecting private collection agencies to work as agents for the Central Collection Service.

DETAILED AUDIT OBSERVATIONS

During the audit the Heads of Court provided us with helpful comments and their perspectives on the justice system. For example, the Chief Justice of the Ontario Court's General Division stated that any review or audit of the administration of justice must consider the following points.

- The administration of justice is not characterized by the pursuit of a single goal, and the aims of the justice system are not easily stated or measurable. Obtaining justice is a question of arriving at a fair and just result in each individual case.
- In the administration of justice, the major participants are independent of each other. This independence is the cornerstone of fairness, the first principle in any justice system. Judicial independence also requires that judges be independent of the Chief Justice and each other.

The Chief Justice further stated that the foregoing is not meant to suggest that the administration of justice should not be accountable for the public resources it uses but rather to emphasize that it requires adequate resources to achieve its aim and that the effectiveness of the system cannot be measured solely against standard business criteria.

ACCOUNTABILITY

The justice system in Ontario is complex and unique. Within the system are both federally and provincially appointed judges who operate independently of the administrative and legislative arms of the government. The Ministry is responsible for managing the budget, hiring and terminating court staff, and providing support services to the Judiciary. As part of its adjudication function, the Judiciary has certain responsibilities for directing the operation of courts, such as determining the dates of court sittings and assigning judges to cases.

Both the Ministry and the Judiciary indicated that the system was complicated by the absence of a single accountability structure and a clear division of authority and responsibility between the two bodies. The dual structure of accountability has often led to difficulties in decision making and inefficiencies in delivering services.

One difficult area is the administration of the Program's budget. From the Judiciary's perspective, judges best understand the needs of the courts and have the best grasp of court operations, such as the time needed to complete cases and court resource requirements. However, it is primarily the Ministry that establishes the staff complement and makes hiring and training decisions, sometimes without consulting the Judiciary. Concerns were also expressed about a lack of timely action in addressing the Judiciary's requirements for such items as accommodation, staff training and the upgrading of court equipment, and insufficient attention to its information needs.

However, managing the budget is the Ministry's responsibility, and, from the Ministry's perspective, that task is made difficult because it has little control over most expenditures. For the 1996/97 fiscal year, the Program's operating expenditures totalled approximately \$235 million, \$188 million of which comprised salaries and benefits to the Judiciary and court staff. Another \$17 million was for expenses directly related to court operations such as witnesses, part-time interpreters and transcripts. The Ministry indicated to us that it had little control over the costs

of many of these services, which must be provided upon request from the Judiciary or the Crown. Without the ability to exercise control, it cannot ensure due regard for economy and efficiency.

The Ministry acknowledges and respects the complexity and uniqueness of administering the justice system. It is of the view that the justice system should be managed as a partnership between its participants, with due respect for the independence of the Judiciary. It believes that there is a need for a governance framework that sets out the responsibilities and accountabilities of the partners for the management of the justice system. This framework would be developed with participation from the bench, Bar, government and public.

The Ministry believes such a framework will ensure that the independence of the Judiciary is respected, while improving the level of consultation and cooperation between the partners. As well, the framework is expected to define accountabilities and establish performance standards for the delivery of court services.

The issue of accountability for court administration has been a long-standing one, both in Canada and internationally, and has been discussed in a number of studies since at least 1976. In 1995 the Ministry published the results of a study, co-chaired by the Ministry and the General Division Judiciary and entitled *Civil Justice Review - First Report*, which examined the issue of accountability within the system of court administration.

That report concluded: "The justice system can no longer function effectively in Ontario unless a single authority, with clear lines of responsibility and accountability, is established to deal with all administrative, financial and budgetary, and operational matters relating to court administration in the Province."

The Ministry has had a Memorandum of Understanding (MOU) with the Provincial Division since June 1993 (renewed in January 1996) which spells out the respective responsibilities of the Ministry and the Chief Justice's Office for defined areas. The Ministry indicated that the MOU has been instrumental in ensuring that both parties take their financial and administrative responsibilities seriously. However, it acknowledges that much remains to be done in addressing accountability in other areas not covered by the MOU and with other Courts.

In November 1996 a Framework Agreement was reached between the Ministry and the Heads of Court to develop a plan for the reform of the management of court services in Ontario. Their intention was to address the matter jointly, in a two-phase exercise.

- In Phase I, a small joint working group was to conduct a study of the feasibility of a reformed structure for the management and delivery of court services.
- In Phase II, the Ministry and Heads of Court was to consider the Phase I proposal and, if they believe it to be satisfactory, direct the working group to research and develop a plan for reform.

If this process produces a viable plan for reform of the management of court services, the Ministry intends to proceed with a cabinet submission proposing the plan. The joint working group was to deliver the Phase I report to a steering committee co-chaired by the Minister and the Chief Justice by January 31, 1997.

The draft Phase I report was delivered to the steering committee in February 1997 setting out some recommendations and seeking further direction from the steering committee on a number

of specific issues. The steering committee has met to discuss the draft report, and, at the completion of our audit in May 1997, we were informed that a determination of feasibility will be made within the next few months. If structural reform is considered feasible, a detailed plan will be developed.

Recommendation

To help the justice system function more effectively, the Ministry and the Judiciary should ensure that reform of the management of court services clearly establishes accountability and responsibility for achieving desired results.

Ministry Response

As indicated in the report, the Ministry has established a Joint Working Group and Steering Committee with the Judiciary, to explore recommendations by the Civil Justice Review on sharing the management and delivery of court services. The Review includes options for increasing accountability and clarifying responsibility for achieving results.

The Steering Committee is currently reviewing the draft report of the Joint Working Group on options to advise on further actions.

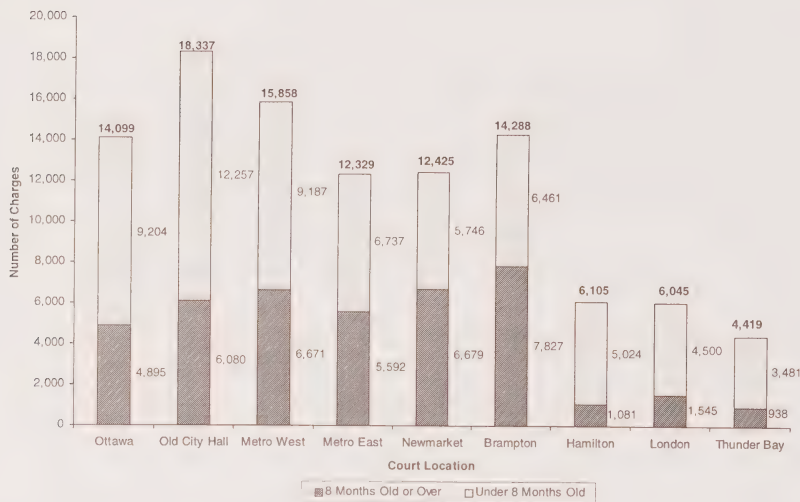
The Courts Administration Division has identified the Judiciary as a key stakeholder for implementation of its 1997/98 Operations Plan, and will be jointly exploring ways of pursuing shared administrative objectives during this period.

BACKLOGS

In October 1990, in a ruling known as the Askov Decision, the Supreme Court of Canada declared that individuals had the right to trial within a reasonable amount of time. This decision under the *Charter of Rights and Freedoms* stated that the acceptable time to trial in the General Division was generally six to eight months, and that time period was interpreted to apply also to Provincial Division trials. The precedent set by this decision resulted in over 50,000 charges being stayed in Ontario within months of the ruling.

At the time of our audit, we noted that many courts still had serious backlogs of criminal charges over eight months, as illustrated by the following chart.

Criminal Charges Pending in Provincial Division by Selected Court Location as at December 31, 1996



As at December 31, 1996, the General Division had about 2,700 criminal charges pending, of which 990 were eight months old or over. (As at December 31, 1995, about 3,740 charges were pending, of which 1,540 were eight months old or over.)

Source: Ministry of the Attorney General data

According to the Ministry and the Judiciary, the causes of delays include: unreadiness of the parties; lack of available judges and courtrooms; complex and time consuming preparation of cases by parties and their legal advisers; lengthy trials; increasingly complex rules of procedure and legal issues; and increasing numbers of persons appearing before the court without legal representation. Additionally, the interests of the parties involved in a case—judges, court officials, attorneys, police and defendants—are, due to the nature of the judicial process, diverse, which may further contribute to delays. Most of the factors which prevent the timely disposition of cases are beyond the control of the Courts Administration Program.

Since the Askov Decision, the Ministry has attempted to address the backlogs of criminal cases through a number of initiatives, including:

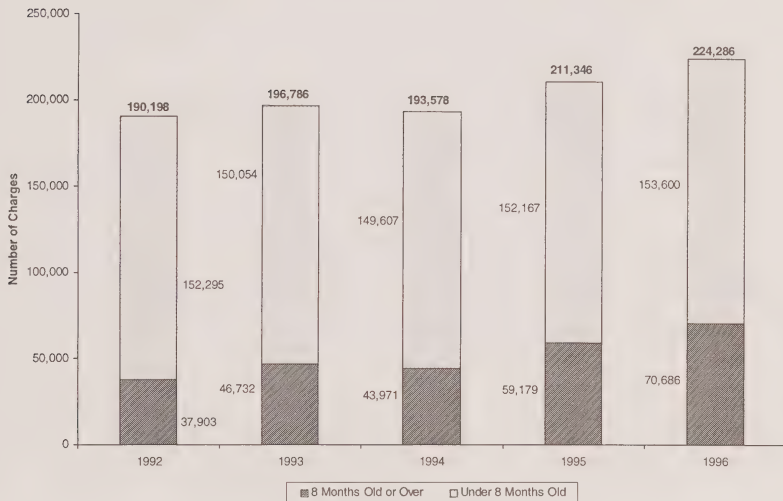
- the Justice Review Project, to make more effective use of the criminal justice system and strengthen justice system partnerships;
- the Martin Committee, to study and advise the Ministry on case management and prosecution policies and procedures; and
- the Ministry's Investment Strategy, to improve the overall efficiency and effectiveness of the justice system.

More recent initiatives include a blitz of courts with significant backlogs through the appointment and reallocation of judges and Crown attorneys. For the longer term, the Ministry's

Business Plan outlined several fundamental changes, including managing resources to focus on serious criminal matters; screening charges to eliminate those that are not necessary or sustainable; and encouraging parties in civil disputes to resolve those disputes earlier, for example, through negotiation, to avoid costly and lengthy court battles.

Despite the initiatives taken to date, the following chart indicates that backlogs have been increasing since 1994 and have the potential to develop into a situation similar to the one which resulted in the Askov Decision.

**Total Criminal Charges Pending in Provincial Division
December 31, 1992 to 1996**



Source: Ministry of the Attorney General data

Even though most factors contributing to delays in cases being heard are beyond the Program's control, it can exercise considerable control in ensuring courtroom availability and providing adequate information to the Judiciary and Crown attorneys. We noted that, with the exception of a few locations, courtroom availability was not a significant contributor to backlogs.

However, we found that information about the causes and lengths of delays was not collected on a systematic basis. As indicated earlier, the parties involved in a case have divergent interests. For example, actions such as police charging practices and postponements by the Crown and defence attorneys all contribute to delays. To more effectively deal with backlogs, it is important to have information which identifies the parties, the length of time and causes for any delays at each stage of a case. Such information would help to ensure accountability, produce early warning signs of any risk that charges might be stayed and provide the basis for

more timely action. The information would also be useful for resource planning and for developing strategies to eliminate any recurring or persistent sources of delays.

Recommendation

To more effectively deal with backlogs, the Ministry should work with the Judiciary to:

- systematically collect and analyze information on the progress of court cases, such as the amount of time taken by each stage of a case and the reasons for any delays; and
- develop approaches for making use of that information in monitoring and preventing delays.

Ministry Response

In November 1996 the Ministry launched a blitz on the backlog in the six most heavily burdened provincial court locations (Barrie, Brampton, Etobicoke, Newmarket, North York and Scarborough).

Results to date indicate that progress is being made and we are moving in the right direction. The blitz is just a first step in addressing systemic problems of long-standing court backlogs. A review of the Criminal Justice system has been established to identify viable, long-term solutions to generate efficiencies and prevent a buildup of cases in the future.

The Ministry will continue to improve the tracking and analysis of information on caseload so as to better understand causes and trends. This should enable pro-active planning and development of preventive measures to ensure that the problem of backlogs is mitigated.

INFORMATION SYSTEMS

The Program uses two main computerized systems to provide information to the Judiciary and Crown attorneys. The Integrated Court Offences Network (ICON) is an on-line mainframe system which accumulates information by courthouse in the Provincial Division. It maintains case data and produces court docket and monthly statistical reports. In the General Division, monthly statistical reports are produced by the Court Input Statistics System (CISS) through information collected from individual courts using manual or stand-alone computer systems.

CASE INFORMATION

The Provincial Division staff indicated that the ICON system was outdated and did not capture all the necessary information or produce the needed reports.

The General Division's information system had problems with inconsistencies in the classification of data as well as the accuracy and timeliness of information due to a lack of on-line access and the inability to generate reports locally.

Both ICON and CISS produce statistics and activity-based information by court location and type of charge such as: the number of charges received, pending and disposed; court utilization hours; number of pre-trials held; proceedings commenced; and motions heard. However, that information was only available in its aggregate form. Neither ICON nor CISS could produce information on individual cases. Such information would be useful for managing caseload and for case management. The information is available from the case files of Crown attorneys, but accessing it would require undue manual effort and would, therefore, be very time consuming.

As indicated by our comments on "Backlogs," maintaining information by case, including the length of time taken at each stage and the reasons for any delays, would allow better management of backlogs.

At the time of our audit, General Division courts and, to a lesser extent, Provincial Division courts, had a number of local computerized database and information systems in addition to ICON and CISS. Although court staff indicated some of these systems were useful, we noted the need for a more coordinated approach to system development and information management.

Additionally, both the Ministry and the Judiciary cited the need for effective, up-to-date technology for use in the courts. In their responses to our survey, they were consistently concerned that the courts remain a paper-driven system clearly in need of automation. Specifically, they identified the need for technological aids such as modern computers, electronic mail, teleconferencing equipment, electronic filing and computer-assisted transcription.

In late 1994 the Ministry of the Attorney General and the Ministry of the Solicitor General and Correctional Services jointly initiated the Integrated Justice Strategy Project to work toward a modern and more effective justice system.

One result of that Project was the formation of the Integrated Justice Technology Project and the issuance of a request for proposals in August 1996. The successful vendor is to work in partnership with the ministries to redefine the business processes for the delivery of justice services and to develop technological solutions. The Ministry of the Attorney General's desired results for the Courts Administration Program include:

- economical technical support and maintenance for legacy systems such as ICON, CISS and others;
- a fully integrated technological solution for administrative and courtroom responsibilities that allows exchange of data among internal and external users across a wide variety of applications; and
- a comprehensive statistical and information system to provide timely, accurate and meaningful management information.

The estimated period of time for final delivery of the Courts Administration's requirements is about five years. At the completion of our audit in May 1997, the ministries were in the process of negotiating a contract with the successful vendor.

Recommendation

Given that the Integrated Justice Technology Project is not expected to produce better information for a number of years, the Ministry should work together with the Judiciary in the interim to identify what information is necessary and can be provided to the courts to improve caseflow and case management.

Ministry Response

The Ministry has identified the need to improve caseflow and case management in the justice system. In this regard the Ministry implemented three pilot projects in the civil court and has found that cases moved through the system more quickly and resolution was achieved earlier compared to courts where there was no case management.

The Ministry and the Judiciary have identified case management as a high priority initiative and have informed the Integrated Justice Technology Project team to ensure that the case management system developed provides strategic information to support the justice system.

In the interim, however, the Ministry will work with the Judiciary to develop mechanisms to provide better information and analysis to support decision making. As well, the Integrated Court Offences Network system, a legacy system, is being maintained and strengthened to provide both the Judiciary and the Ministry with management information for decision making.

FINANCIAL INFORMATION

Financial information is needed to properly assess accountability for expenditures and to determine whether there is due regard for economy and efficiency and whether results are achieved at appropriate costs. It is also crucial for resource management, planning and decision making.

The Program had information on actual compared to budgeted expenditures by region and court location. This information provided assurance that expenditures were within budgets.

As discussed in the previous section, the Program had statistical information on activities such as the number of charges initiated, disposed of and pending and the number of trials held. Sufficient information was available to management to assess workloads and levels of services provided. However, such information is not sufficient for assessing whether service levels were appropriate and being provided efficiently in relation to their costs.

For example, information on the number of trials alone would not be sufficient for decision-makers to assess whether appropriate financial resources were being devoted to conducting trials. Costing benchmarks and comparisons of costs, for example, costs per hour of court time by type of trial and by court, would provide management with more meaningful information for assessing the efficiency of operations.

Additionally, the Program did not have sufficient information on the achievement of results or the costs of such achievement. That information is important because it helps the Ministry to

decide whether programs or activities ought to be continued or if alternatives exist for achieving the same results at lower costs.

For example, one of the Program's desired results is the timely disposition of cases, and one of the primary considerations in achieving that result is the risk of having cases stayed. However, in allocating resources to reduce criminal case backlogs, it is also important to know the extra costs of delays to the Ministry and other parties involved, such as the cost of keeping remanded offenders in jail, so that an appropriate level of resources can be allocated to reducing backlogs.

The Ministry's 1995 *Civil Justice Review* included discussions on the cost of the civil justice system indicating that insufficient data was available on program costs and that little analysis had been done. Without this information, it is difficult to assess whether system costs are reasonable and acceptable and whether the public and litigants are receiving the best value for money spent. The review recommended that the Ministry work with other parties involved in the litigation process to conduct a study on the cost of civil justice. However, we noted that by the end of our audit, no such study had been initiated. Also, the Integrated Justice Technology Project, which recently issued a request for proposal to implement new technology for the justice system, did not include a component for the costing of services and activities.

3.01

Recommendations

To improve financial information for resource management, planning and decision making, the Ministry should:

- establish costing benchmarks and collect information for assessing the economy and efficiency of its services and activities; and
- work with participants in the justice system to determine what information is needed to assess the costs of achieving desired results and how it could be collected.

In addition, the Ministry should include a component for collecting cost information in its system development initiatives.

Ministry Response

The Ministry has plans to develop an information policy which will better articulate our collective information needs for operational delivery and program planning purposes. An executive information system is also being developed which will give senior management a better sense as to trends in the delivery of ministry services.

Benchmarks for measuring performance, in regard to economies and efficiencies, have been identified as part of the change process in most of the business plan project initiatives currently in place (for example, case management).

In addition, the Ministry is developing a framework for calculating the total cost of ownership of our systems-related resources which should help us to assess the expenditures being made in technology initiatives.

MEASURING AND REPORTING ON PROGRAM EFFECTIVENESS

During the 1996/97 fiscal year, the Ministry completed a review of its operations in relation to its goal of becoming a modern, more accessible and more effective justice system, and the results were incorporated into its Business Plan. The Plan identified the Ministry's core business activities, one of which is to provide for courts that are fair, timely and accessible. The identification of those core businesses resulted in a number of new policy initiatives and approaches to delivering existing services. The Ministry's strategies for change can be grouped into three main themes:

- managing resources to focus on serious civil and criminal matters;
- alternative service delivery; and
- better management.

Additionally, the Ministry planned to measure its success in terms of the following performance indicators:

- ability to meet core business needs;
- achievement of intended results;
- secondary impacts;
- costs and productivity;
- financial results;
- customer/stakeholder satisfaction; and
- public confidence in the justice system.

Measurement was to be made on a continuous basis to provide information to manage change and to identify areas requiring further evaluation before changes could be introduced. The Ministry recognized that performance indicators change over time and would probably require adaptation.

The Ministry's initiative to measure performance and program success is an important first step. Nevertheless, we noted that the performance indicators above were only broad attributes and that specific indicators that would be measurable against established benchmarks had not been developed. Also, the Ministry had not assessed which attributes were most relevant to the operations of the Courts Administration Program.

A key activity of the Program is to provide support services to the Judiciary. However, we noted that there was no formal structure in place which would allow for the Judiciary's involvement in the development of performance indicators.

Recommendation

The Ministry, together with the Judiciary, should improve the measures of effectiveness which contribute to a modern, more accessible and more effective justice system by:

- determining which of the effectiveness attributes are most relevant for its operations; and
- developing program-specific performance indicators and targets against which the achievement of results can be measured.

Ministry Response

The Ministry has developed corporate performance measures, including standards and targets. These measures will be published in the Ministry's 1997/98 Business Plan.

The next step in the process is to develop program-level measures to develop more specific performance indicators and targets against which achievement of results can be measured.

PROGRAM EXPENDITURES

Expenditures for the Last Three Fiscal Years (\$ millions)

	1994/95	1995/96	1996/97
Operating	258	243	235
Capital	*	*	17
Total	258	243	252

* Capital expenditures for the 1994/95 and 1995/96 fiscal years are not available; they are part of Ontario Realty Corporation expenditures.

Source: Ministry of the Attorney General

In recent years, the Ministry has undertaken a number of initiatives with the aim of reducing program expenditures and providing a more efficient court system. These include:

- consolidating its regional management structure and court offices;
- business process re-engineering to eliminate unnecessary steps in program service delivery; and
- civil case management projects to encourage speedier resolution of cases and expansion of alternative dispute resolution to reduce the number of matters requiring court adjudication.

CAPITAL PROJECTS

The Ministry prioritizes courthouse construction and renovation projects on the basis of criteria such as projected courtroom requirements, funding requirements, cost-saving opportunities, workforce impact, and occupational health and safety concerns. After a project is reviewed and approved by the Ministry's senior management, a business case supporting the need for that project is prepared and submitted to Management Board of Cabinet. After approval by

Management Board, the Ontario Realty Corporation manages the project on behalf of the Ministry.

We noted that, prior to the 1996/97 fiscal year, no new courthouses had been constructed in the province in the last decade. In the 1996/97 fiscal year, funding for six courthouse projects, estimated at \$265.7 million over five years, was approved by Management Board. At the conclusion of our field work, one renovation project had been completed, and work had commenced on the construction of two new courthouses.

Based on the results of our audit, we concluded that courtroom construction projects, including renovations, were prioritized based on need, competitively awarded and properly monitored.

COLLECTION OF FINES

The Program is responsible for the collection of fines owed to the province for violations under provincial statutes and the *Criminal Code*. Most of the fines collected are for offences committed under the *Highway Traffic Act*. Fines related to parking offences are usually collected by the municipalities.

The Ministry's procedure for collecting fines is to notify offenders of the amounts owing three weeks after a ticket is issued. If an offender chooses to contest the charge(s) in court and is then convicted, the fine must be paid within 30 days. The Ministry considers fines to be in default 45 days after conviction, at which time a penalty is added and overdue fines are to be transferred to the government's Central Collection Service (CCS). Persons convicted under the *Highway Traffic Act* also have their records referred to the Ministry of Transportation. The Ministry of Transportation sends those individuals letters informing them that it will suspend their driver's licences if payments are not received within three weeks.

In January 1997 the government announced its intention to transfer to municipalities the administration and prosecution functions for less serious crimes, including the collection of fines for ticketable offences under the *Highway Traffic Act*. The province will continue to prosecute more serious offences, which are often more complex and can result in jail sentences.

TIMELINESS OF COLLECTION

Total Fines Outstanding as at March 31, 1997

	\$ Millions	%
Less than one year old	72.2	23
Between one and two years old	43.9	14
Greater than two years old	200.4	63
Total	316.5	100

Source: Ministry of the Attorney General data

We noted that no accounts had been transferred to CCS for collection from February 1995 to February 1997. We were informed that the delay was primarily due to incompatibility between

the ministry and CCS computer systems and a reduction of staff at CCS, which prevented the transfer of accounts. In this regard, we noted that the Memorandum of Understanding between the Ministry and CCS did not clearly set out their respective roles in monitoring the transfer of accounts and collection of fines.

Additionally, the Ministry had little information available to monitor the success of collection efforts. Monthly status reports on CCS collection activities and results would be useful to the Ministry for assessing the success of collection efforts.

In March 1997 program staff informed us that Management Board had approved the selection of three private collection agencies and that it had begun to transfer to CCS those fines that became overdue prior to March 1996. According to staff, the transfer of fines that became overdue after March 1996 would begin once Management Board Secretariat had completed its selection of additional private collection agencies for CCS to use for the collection of overdue accounts.

On average approximately \$4 million in fines go into default each month. The longer an account is outstanding, the more difficult it is to collect. Accordingly, delays in collection are resulting in significant loss of revenue to the province. We noted that over 75% of the overdue fines are more than one year old.

Recommendation

To help ensure that fines are promptly collected, the Ministry should work with the Central Collection Service to:

- clearly establish the roles and responsibilities for monitoring the collection of fines in its Memorandum of Understanding with the Central Collection Service; and
- improve procedures so that overdue fines can be more promptly transferred.

Ministry Response

A review of the Memorandum of Understanding which details the roles and responsibilities between the Ministry and the Central Collection Service will be initiated by the Ministry. The Ministry of Finance has initiated a review of corporate accounts receivable policies; this review will include accountability measures and will set a framework which will guide the Ministry in its discussions.

Central Collection Service is currently reviewing its processes to enable electronic transfer of information with client ministries. The Courts Administration Division is participating in these discussions to identify required changes. Among the issues being discussed is how to make better use of technology to manage information pertaining to accounts receivable.

INFORMATION ON OVERDUE ACCOUNTS

The Ministry tracks account information on its computer system by case number only and not by person. This practice could result in separate collection notices being sent to persons with multiple fines. Also, because several collection agencies are involved in the collection of overdue accounts, more than one could attempt to collect fines from the same person.

Recommendation

To improve the collection of fines, the Ministry should modify its system for tracking fines so that fines can be identified both by case number and the identity of the person owing the fine.

Ministry Response

The extent to which we are able to track information will depend on the degree to which the originating officer ensures that as much information as possible is identified on the ticket issued. As part of ongoing discussions with Central Collection Service on overdue fines, we will discuss the most efficient format in which to transfer information so that easier identification of individuals owing fines can be effected.

ENFORCEMENT MEASURES

As of March 31, 1997, overdue fines for offences committed under the *Highway Traffic Act* totalled approximately \$139.9 million. For \$82.6 million of that amount, the Ministry had driver's licence information on the individuals' account numbers. We examined those accounts with driver's licence information and found that:

- 15,800 individuals each had \$1,000 or more in overdue fines, including 116 individuals with more than \$10,000; and
- 16,000 individuals each had unpaid fines for five or more offences.

The driver's licences for the majority of these individuals had already been suspended.

The payment notices from the Ministry warn that, in addition to licence suspension, failure to pay fines can result in other measures, such as the Ministry informing the Credit Bureau of the debt, requiring banks to deduct the money owing from the person's bank account or registering a lien against the person's real property. We noted that none of these measures had been initiated by the Ministry. While we recognize these measures would not be practicable in every case, some could be effective depending on the nature of the cases and the amounts of the fines.

Recommendation

To improve the rate of fine collection, the Ministry should work with the Central Collection Service to assess the merits of implementing measures to more vigorously pursue overdue fines.

Ministry Response

There is an ongoing, active review of policies and practices with respect to overdue fines. This is particularly crucial in light of the proposed devolution to municipalities of administrative and some prosecutorial functions under the Provincial Offences Act.

The Ministry is reviewing its internal processes and regulations on enforcement and will engage other parties in due course to address other measures to vigorously pursue overdue fines and increase collection rates.

3.01

MINISTRY OF CITIZENSHIP, CULTURE AND RECREATION

Culture Activity

The cultural activities of the Ministry of Citizenship, Culture and Recreation are designed to encourage the arts, support cultural industries, preserve Ontario's heritage and advance the public library system. The Culture Division oversees cultural agencies and is responsible for the development of policies and the operation of programs in support of the arts, heritage, cultural industries and libraries. For the 1996/97 fiscal year, the Division's expenditures for cultural activities were \$193 million.

During the 1996/97 fiscal year, the Ministry approved \$143 million in funding for 10 cultural agencies and \$8.4 million in grants to a number of arts, heritage and cultural industries. The Ministry also approved \$35.8 million in funding to public libraries and two library service organizations for providing various coordination services to local library boards.

Overseeing cultural activities is primarily the responsibility of the Division's 80 staff who work at the Ministry's head office in Toronto. The Ministry's network, comprising three regional and 19 district offices reporting to the Sport, Recreation and Ministry Regional Services Division, offers various consultative services and administers a cultural grant program. Administrative costs for the Culture Division were \$6.2 million for the 1996/97 fiscal year.

OBJECTIVES AND SCOPE

The objectives of our audit were to assess whether the Divisions had adequate procedures in place:

- to ensure that cultural resources were managed with due regard for economy and efficiency;
- to hold cultural agencies accountable for their expenditure of public funds; and
- to measure and report on the effectiveness of cultural activities.

Our audit included an examination and analysis of documentation and management reports retained by the Culture Division, as well as discussions with appropriate ministry officials. We also visited one regional office and sent questionnaires to ministry staff at the other two regional offices.

OVERALL AUDIT OBSERVATIONS

Adequate procedures were in place to ensure that grant payments received the required approvals and were properly paid. However, in order to ensure that grant programs are delivered economically and efficiently, the Ministry needs:

- to clarify the responsibilities of the two Divisions that administer grant programs;
- to strengthen grant eligibility review procedures;
- to improve the assessment of the reasonableness of funding requests; and
- to develop policies regarding the recovery of unspent funds from its agencies.

The Ministry also needs to strengthen its framework for holding the 10 cultural agencies accountable for their expenditures by:

- implementing a system to track the receipt of agency submissions;
- requiring the submissions to contain sufficient information for appropriate review; and
- ensuring that agency board appointees are made aware of their duties and responsibilities through a comprehensive orientation process.

The Ministry has developed detailed plans for cultural grant programs and implemented a performance measurement and reporting process. However, the Ministry needs to take into consideration in its planning process all Division activities, including those of its agencies, and further develop procedures to measure and report on the effectiveness of such activities.

DETAILED AUDIT OBSERVATIONS

ARTS, CULTURAL INDUSTRIES AND HERITAGE SECTOR SUPPORT

The Ministry provides funding to arts, heritage and cultural industries through a number of grant programs. Some of the programs' objectives are to provide support to increase the recipients' efficiency and capacity for self-reliance, strengthen and encourage strategic partnerships, and expand the volunteer sector. We reviewed the three largest programs which accounted for over 80% of the 1996/97 funding allocations as follows: operating funding of \$1.6 million to 35 arts sector organizations; \$3.1 million to 191 community museums; and \$2.5 million for specific cultural projects.

PROGRAM DELIVERY

The Division's Cultural Programs Branch employs 45 staff in the Ministry's head office, and is responsible for program development, program delivery and heritage planning. The Ministry's network of three regional offices and 19 local offices processes grants and offers consultative services relating to citizenship, cultural and recreational activities. In addition, the regional offices share responsibility for the delivery of cultural project grants with the Branch. However, the 115 staff of the regional and local offices report to the Sport, Recreation and Ministry

Regional Services Division and not the Culture Division. For the 1996/97 fiscal year, the operational expenditures for all regional services totalled \$9.5 million.

We interviewed or sent questionnaires to a number of ministry staff and noted that they were unclear regarding their responsibilities to the two Divisions. Additionally, as staff in both the head office and the regional offices deliver project grants, the Branch could not fully assess the program because it was not responsible for regional office activities.

The Ministry did not have procedures in place to properly cost individual staff activities such as grant processing, consulting and administration. For example, regional office staff had not determined how much of their time was devoted to cultural activities but they estimated it could have been as much as 25%. Consequently, the Ministry cannot determine whether such activities are delivered efficiently and economically.

Recommendation

To ensure that cultural activities are delivered efficiently and economically, the Ministry should clarify the roles and responsibilities of the two Divisions that deliver cultural programs and develop procedures to provide program costing information.

Ministry Response

For 1997/98 the Culture Division and Regional Services have undertaken a joint operational planning exercise which clarifies the roles and responsibilities of the program branches. The process will continue throughout the year as plans are implemented.

By linking individual performance agreements to our ministry Business Plans' goals through the strategies and key deliverables of the Joint Operational Plan, the Division is able to allocate and measure resources in terms of ministry goals and core businesses.

GRANT ELIGIBILITY

The Ministry has established grant eligibility criteria incorporating legislative requirements and supporting ministry goals and objectives, and standards covering the form, content, submission and approval of grant proposals. Ministry approval is based on a review of grant submissions which include a signed standardized contract setting out the funding conditions, the purpose of the grant and the responsibilities of the Ministry and the recipient.

In reviewing a representative sample of grants for the three selected programs we noted that all payments received the required approvals and were properly paid. However, in two of the three programs eligibility was not adequately assessed, as illustrated in the following examples.

- The *Ontario Heritage Act* Regulations require funded community museums to adhere to the "Standards for Community Museums in Ontario." These standards, such as storing artifacts safely and securely, are meant to ensure that a minimum level of acceptable practices and guidelines has been established by the museum. The Ministry gave the museums 10 years, ending in 1991, to meet these requirements. However, the Ministry had not subsequently ensured that the museums had achieved the minimum standards. In the 1996/97 fiscal year, a questionnaire was sent by the Ministry to all funded museums to help in identifying museums which might not have been adhering to the standards. The responses to the questionnaire indicated that the rate of adherence to the various standards ranged from 96% down to 16%.
- In reviewing the cultural project grants for the 1995/96 and 1996/97 fiscal years, we noted that a number of the grants contravened the grant eligibility guidelines. For example, the program is not intended to fund ongoing operating costs, yet a number of organizations had received funding for these purposes.

Recommendation

In order to ensure that only eligible recipients and costs are funded, the Ministry should establish procedures to ensure compliance with the requirements of the legislation and ministry policy.

Ministry Response

Grants to Museums

The Ministry is presently reviewing its community museum program including its operating grants, regulations governing the grants and its advisory services to museums. The review, to be concluded during the 1997/98 fiscal year, is addressing eligibility criteria for funding, funding allocation and adherence to provincial museum standards as a condition of funding. Recommendations from this review will be implemented in the 1998/99 fiscal year.

Cultural Project Grants

It should be noted that a new program was put in place for cultural project grants for 1996/97. The staff manual and orientation is being updated to reflect eligibility criteria, and managers are responsible to ensure files comply with ministry policy.

PROGRAM FUNDING

Management Board Directives state that public funds should be expended wisely and prudently to meet planned objectives and should result in effective program delivery. This would require the Ministry to set explicit priorities, strengthen management processes and make trade-offs between existing programs and new initiatives.

For the art service organizations, the Ministry assessed the applicants' operations and adjusted funding levels accordingly. However, for the other two grant programs (community museums

and cultural program grants) the Ministry did not always compare, or otherwise fully analyze, the reasonableness of funding requests. The following examples illustrate our observations.

- Due to funding constraints the Ministry has given priority to funding those museums previously in receipt of a grant. According to Ministry staff there are a number of museums which adhere to the minimum required standards for museums, but they are on a waiting list and are not being funded by the Ministry. Moreover, the Ministry has not attempted to prioritize or reapportion the available funds among all the eligible applicants.
- In the 1996/97 fiscal year, Ministry analysis revealed that grants to museums ranged from 3% to 50% of eligible expenditures. Ministry staff attributed the variance primarily to historical funding inequities. Although the Ministry's ratings of museums in areas such as research, collections management and conservation ranged from 16% to 96%, all museums had their annual funding decreased by the same percentage. A similar type of rating was performed for art service organizations and was used to apportion available funds more equitably.
- In reviewing cultural program grants for the 1995/96 and the 1996/97 fiscal years, we observed a number of grants where there was no evidence on file that the request had been assessed for the reasonableness of the amounts funded.

Recommendation

To ensure that program funding is allocated on a more reasonable and equitable basis, the Ministry should periodically review the methods of funding and revise them where necessary.

Ministry Response

Cultural Project Grants

A new program was introduced in 1996/97 and evaluated at the year-end. As a result, the 1997/98 program requires more stringent analysis for expected results to be undertaken and decisions and analysis to be more fully documented in all files.

Grants to Museums

As previously noted, a review is being conducted on the community museum program, which is addressing the program's method of allocating its funding. This review will be concluded in 1997/98 and implemented in 1998/99.

GRANT MONITORING

For project grant monitoring purposes the Ministry requires that a post-project report, documenting how the grant was used, is to be submitted within three months of project completion. We found that different monitoring procedures were in place for project grants approved by head office and those approved by the regional offices. Specifically, the regional offices have a system for tracking grant submissions and require recipients to submit receipts and invoices so

they can determine whether funds were spent for the purposes intended. Head office does not have such a system and does not require such documentation. We also reviewed the 1995/96 cultural project grants and found that the required final reports had not been received from 26% and 40% of the recipients approved for funding by the regional offices and head office, respectively. At the time of our audit the Ministry was implementing a new Corporate Grant Management System that is intended to provide all ministry staff with a means to monitor the status of the grant submissions more effectively.

Operational grant recipients are required to submit annual audited financial statements, business plans and details of what the organization accomplished during the preceding year. In reviewing the monitoring process regarding operating grants to art service organizations, we noted that the business plans of some applicants were very specific with respect to the type and number of programs offered to their clients. Such information enabled the Ministry to assess whether these organizations addressed program priorities and objectives and, if so, to what extent. However, other organizations submitted plans that did not provide such detailed information.

The Ministry only funds the operating costs of art service organizations. In the 1995/96 fiscal year, art service organizations reported administrative expenses ranging from 12% to 96% of their total expenditures. However, recipients were not reporting financial information in a consistent manner. Consequently, for the 1996/97 fiscal year the Ministry developed a standardized form which required all applicants to report statistical and financial information consistently. Our review of a sample of 1996/97 files revealed that administrative expenses ranged from 39% to 74% of total expenditures. As expenditures were still not being reported consistently, the Ministry could not use this information to compare similar organizations to determine whether administrative costs were reasonable.

Recommendations

To ensure that the objectives of program grants are achieved economically, the Ministry should:

- ensure that year-end submissions from grant recipients are received on a timely basis so that they can be reviewed and corrective actions taken where necessary; and
- improve the standard reporting requirements to ensure that the information received facilitates monitoring and evaluation.

To ensure that the grant monitoring process is administered efficiently, the Ministry should implement standardized monitoring procedures.

Ministry Response

With the formation of the Ministry in 1995, a number of grant systems were consolidated into a single corporate grant management system. Some user enhancements have already been, and others are currently being, incorporated which together will greatly improve the staff's ability to monitor and close files. The Culture Division will work with Regional Services and its Regional Support Services Unit to ensure a standard report procedure is developed and adhered to.

LIBRARY SECTOR SUPPORT

LIBRARY SECTOR FUNDING

Approximately 400 public library boards have been established in Ontario pursuant to the *Public Libraries Act*. The legislation requires the Ministry to make grants on a per household basis to all library boards to provide for their organization and operations. Municipal governments approve library budgets and provide the bulk of the funding. Ministry funding for the 1995/96 fiscal year totalled \$30.5 million and was reduced 20% to \$24.4 million for the 1996/97 fiscal year.

Grants to public libraries for 1996/97 were based on the previous year's per household funding, less a specified percentage. We reviewed these grants and found that payments were properly calculated, approved and paid.

The Ontario Library Service (OLS) established by the Ministry consists of two agencies: Ontario Library Services North and the Southern Ontario Library Service. These agencies provide various coordination services to local libraries including the provision of consulting services, staff training and an interlibrary loan network. The Ministry appoints members to the boards of these two agencies but the majority of the members are representatives from local library boards. For the 1996/97 fiscal year, ministry funding for these two agencies totalled \$5.5 million which is virtually 100% of their budgets.

Ministry funding for library service agencies is based on annual operating budgets. We reviewed this funding and found that budgets received the required ministry approvals and the two agencies were properly paid.

We reviewed the 1995/96 financial statements of the two library service agencies and noted significant accumulated surpluses totalling \$1.5 million, or over 25% of their 1996/97 funding. However, the Ministry has not established policies for dealing with situations where ministry funding has not been spent. Additionally, in our view, prudent government-wide policy would require all prior years' expenditure surpluses to be recovered.

Recommendation

The Ministry should review the funding arrangements that result in year-end surpluses and establish procedures to adjust future years' funding or recover these surpluses.

Ministry Response

It should be noted that, in the past, the agencies received their first grant payment of the fiscal year in May or June making it essential for them to carry over funds in order to function for the first two to three months of the year. This year the agencies received their first grant payment in April.

In the 1995/96 fiscal year, the agencies had received notification shortly before the end of the fiscal year of a 37% reduction in the following year. Both agencies immediately curtailed their spending in order to amass the savings necessary to cover the severance payments anticipated from mass layoffs early in 1996/97. The severance costs had to be covered entirely from the agencies' regular operating grants.

The Ministry will be reviewing accounting arrangements with the agencies to ensure they comply with overall government processes and procedures. The Ministry will also assess year-end surpluses to ensure the surpluses are reasonable for current operational purposes.

3.02

LIBRARY SERVICES REVIEW

The Who Does What Panel, consisting of a number of mayors, municipal officials and financial experts, was appointed on May 30, 1996. The panel's goal was to ensure optimal service delivery by reducing waste, duplication and the overall cost of government at the provincial and local government levels. The panel made a series of recommendations including a proposal that the Ministry cease funding public libraries. The panel also suggested that libraries be given maximum flexibility to generate revenues. The legislative changes required to eliminate library funding and allow expanded revenue-generating capabilities were introduced in the Legislature in January 1997.

The Panel also recommended that the Ministry continue its role of advancing the library system. The two library service agencies fulfil a major part of this role. These agencies generate little revenue despite their provision of value-added services such as training programs for local library staff, the interlibrary loan service and a province-wide computer network. Neither the two agencies nor the Ministry had calculated the value of these services to determine the feasibility of cost recovery.

As outlined in the 1996/97 business plan, a major objective for the Ministry regarding grant recipients is to encourage revenue generation and self-reliance. Successful revenue generation may assist the two library service agencies to become more self-reliant and eventually less financially dependent on the Ministry. Streamlining of the two agencies may also result in administrative and operational economies as they offer similar services to different geographic areas.

Recommendation

To reduce the overall cost of the program, the Ministry should work together with the library service agencies to assess the potential for revenue generation and consider the feasibility of streamlining their operations.

Ministry Response

The Ministry will be working with the agencies to examine the potential for revenue generation and the feasibility of streamlining their operations.

It should be noted that legislation requires that the agencies deliver programs on behalf of the government and therefore some government funding will be required on an ongoing basis.

CULTURAL AGENCIES

During the 1996/97 fiscal year, the Ministry provided almost \$143 million, or 74% of its culture budget, to 10 transfer payment recipients as follows.

1996/97 Cultural Agency Funding

	\$ Millions
TV Ontario	56.9
Ontario Arts Council	30.3
Royal Ontario Museum	19.4
Art Gallery of Ontario	11.9
Ontario Science Centre	11.7
Science North	3.3
McMichael Canadian Art Collection	3.2
Ontario Heritage Foundation	2.2
Royal Botanical Gardens	2.2
Ontario Film Development Corporation	1.7
Total Funding	142.8

Source: Ministry of Citizenship, Culture and Recreation

All of the above agencies have their own legislated mandates and report to the Legislature directly or through the Ministry. The province appoints all or the majority of board members for eight of the ten agencies. The Ministry is responsible for providing a framework to assess whether an agency's mandate is being fulfilled in compliance with approved government policies.

AGENCY ACCOUNTABILITY

Legislation establishing the agencies, government policies and ministry requirements together provide a framework to hold government agencies accountable for their expenditure of public funds. The Ministry's framework for each agency is formalized in a Memorandum of Understanding which outlines the respective roles and responsibilities of the Ministry and the agency. The agencies are required to submit a number of documents, including an annual business plan, a strategic plan, a five-year capital plan and an annual report. In addition, agency and ministry staff attend regular liaison meetings to discuss current operational issues.

We reviewed the Ministry's accountability processes in place for cultural agencies and noted the following.

- Adequate procedures were in place to ensure that payments to agencies received the required approvals and were properly paid.
- The Ministry did not have a system to track whether the submissions required by the Memorandums of Understanding had been received. In reviewing the documentation received over a four-year period, we determined that the majority of the required documents had been submitted. However, a number of required submissions had not been received from five of the six agencies examined. We also noted that all the Memorandums of Understanding had expired between 1990 and 1995 and had not been updated.
- The Ministry developed a business plan template to assist the agencies in preparing their annual budget submissions and ensure the receipt of comparable and complete information from all agencies. However, for the business plans submitted by the agencies during the period that we reviewed, compliance with the template information requirements ranged from 25% to 96%. The information not submitted generally included financial forecasts, staffing information and review of the current year's operational performance. The Ministry needed such information for proper planning and for holding the agencies accountable.
- We reviewed the agency business plans received and found that for each of the last three years over one third lacked evidence of ministry review. The Ministry generally had not performed key types of analyses, such as comparing actual to budget expenditures, determining compliance with the agencies' legislated mandates and reviewing expected outcomes.
- Management Board requires internal audits to be performed on a periodic basis by the Ministry's internal audit branch, by an internal audit capability within the agency, or through a private sector contract. We noted that one agency had its own internal audit capability. However, internal audits had not been performed at any of the other nine cultural agencies.
- In October 1996 the Ministry produced a report outlining the concerns expressed by a forum of agency officials. The forum identified a number of problems with the board appointment process, such as limited orientation of appointees to the agencies' boards of directors regarding their roles and responsibilities, and delays in filling vacancies on the boards. For example, a number of government appointments to the agencies' boards had not been made for more than six months. We also noted that prior to 1993 the Ministry had provided all appointees with a Board of Director's Manual which briefly outlined their duties and responsibilities.

Recommendation

In order to hold cultural agencies accountable for their expenditure of public funds, the Ministry should ensure that:

- a system for tracking the required agency submissions is implemented;
- submissions contain sufficient information, are thoroughly reviewed and corrective action is taken where necessary;
- internal audits are periodically performed on all cultural agencies;
- all agreements with agencies are kept up to date; and
- board appointees are provided with a comprehensive orientation which outlines their role, duties and responsibilities.

Ministry Response

The Ministry is currently revising the Memorandum of Understanding template that will be used for negotiating all agency Memorandums of Understanding. The template includes clearer reporting requirements for the Ministry as well as each agency. It is intended that all agency Memorandums of Understanding will be renegotiated. The Ministry is implementing a more formalized response process for all agency business plans. The response will examine if the agency has complied with the information requested in the business plan template as well as an analysis of the information. The analysis process will be incorporated into the workplan of each agency coordinator and the performance contract of the Director of the Cultural Partnership's Branch.

Over the next few months the Branch will be implementing an information database that will track reporting requirements for all agencies.

The Branch will be working with the ministry audit section to establish an appropriate internal audit schedule for all cultural agencies.

The Branch will work with the agencies to ensure the boards of agencies have an orientation process for new board members that includes an outline of members' roles and responsibilities.

PLANNING PROCESS

For the 1996/97 fiscal year, the Ministry produced a corporate business plan, a division plan and detailed branch plans. The planning process is designed to incorporate legislative objectives, government priorities and program objectives into workable branch plans. To facilitate the planning process the Ministry periodically assesses and prioritizes the needs of the arts, cultural industries and heritage communities and promotes activities to address those needs. In 1995 the Division had reviewed all grant programs and determined that all programs were still necessary, but two of them needed to incorporate their communities' needs to a greater extent. Our review of the grant programs revealed that the Ministry had subsequently incorporated the priorities and expressed needs of the applicable communities into the programs.

We reviewed the Ministry's plans for the 1996/97 fiscal year and found that the plans addressed legislative objectives, government priorities and program objectives. The plans generally focused on policy development, program reviews and operational tasks. The plans also need to outline specific program outcome measures and coordinate the activities of the 10 cultural agencies and other organizations with ministry programs. For example, both the Ministry and the Ontario Arts Council, one of the ministry-funded cultural agencies, assess and fund art service organizations. The Council funds program-related costs while the Ministry funds administrative costs. As the planning process did not coordinate the activities of the Ministry and the Council, they assessed the need to fund these recipients twice. This results in an inefficient and uneconomical method of service delivery.

Recommendation

To ensure a more comprehensive planning process, the Ministry should further develop its process to incorporate specific program outcome measures and, where appropriate, coordinate its activities with those of the cultural agencies.

Ministry Response

In accord with government-wide instructions from Management Board, the Ministry is putting in place a more complete performance measurement system that is expected to address the Provincial Auditor's concerns. This more comprehensive system will incorporate specific program outcome measures and will feed into and inform the ministry planning process from both levels.

In conjunction with its commitment to Management Board to carry out operating reviews for all agencies, the Culture Division will review its own activities and those of its agencies to ensure coordination of activities and eliminate duplication and overlap. The Ontario Arts Council, which has completed its operational review, is currently restructuring its activities toward these ends in consultation with the Ministry.

PERFORMANCE MEASUREMENT AND REPORTING

The Ministry's 1996/97 business plan specified a number of performance measures including the amount of private sector support provided to arts and heritage organizations, the economic activity of the cultural industry and the percentage of libraries using on-line systems. However, the Ministry did not use these measures to assess the effectiveness of its programs.

For the 1997/98 fiscal year the Ministry has developed a number of new performance indicators which will be used to measure the overall state of the cultural sector. Many of these indicators will be assessed using data generated by Statistics Canada. However, the Ministry has not related its activities to these overall indicators and therefore cannot determine the degree to which its programs have contributed to the overall cultural sector performance.

For each grant within the grant programs, the Ministry had entered into standardized contracts which described the roles and responsibilities of the recipient and any limits on the use of funding. However, measurable outcomes were not specified in these contracts for the 1995/96 fiscal year. In the 1996/97 fiscal year, the Ministry developed specific outcome measures for only the cultural grants program and incorporated the measures into the contracts.

The Ministry requires all agencies annually to report performance information such as attendance statistics and the number of viewers, members and volunteers. We reviewed a number of agency submissions for the 1995/96 fiscal year and noted that 50% did not report performance measures as required. Similarly, only one of the two library service organizations reported activity- and outcome-based performance measures.

Recommendation

To ensure that division activities adequately contribute to overall cultural sector performance, the Ministry should develop more complete performance measures that relate ministry program results to the overall cultural sector measures currently in place.

Ministry Response

The Ministry has committed to Management Board to develop and implement a complete performance measurement system in the course of this fiscal year.

The Culture Division has already taken steps toward implementing some aspects of this more comprehensive performance measurement system. The Division held a one-day workshop on April 29, led by a management consultant. A full cross section of the Division participated, including the Assistant Deputy Minister, all directors and managers (regional and head office) and selected staff.

MINISTRY OF COMMUNITY AND SOCIAL SERVICES

Child and Family Intervention Program

3.03

The Child and Family Intervention (CFI) program of the Ministry of Community and Social Services provides for a range of services designed to alleviate social, emotional and/or behavioural problems experienced by children and their families. These include family breakdown, physical or sexual abuse, drug abuse, attempted suicide and depression. Under provisions of the *Child and Family Services Act*, the program provides transfer payments to approximately 200 community-based agencies that deliver such services as psychiatric therapy, counselling, skills training and education, as well as residential services to children who require more intensive assistance.

Services may be provided by the program to any child, including young offenders and children who may already be receiving services from a Children's Aid Society, or through other programs funded by the Ministry.

For the 1996/97 fiscal year, the Ministry's total funding for children's services was approximately \$1.3 billion, of which \$189 million related to the CFI program. Of the latter amount, approximately \$69 million was expended for residential services while the remainder was spent on day treatment or outreach care.

The program's volume indicators (active cases) for the past five fiscal years are shown below.

Comparative Program Volume Indicators

	1996/97	1995/96	1994/95	1993/94	1992/93
Residential	1,180	1,201	1,233	1,171	1,750*
Non-Residential	31,000	31,450	30,628	27,741	37,942*
Total	32,180	32,651	31,861	28,912	39,692
Funding (\$Millions)	189	198	216	193	190
Funding Per Case (\$)	5,873	6,064	6,779	6,675	4,787

* Decrease from 1992/93 to subsequent years is attributable to changes in the definition of a client.

Source: Ministry of Community and Social Services

OBJECTIVES AND SCOPE

Our audit objectives were to assess whether the Ministry's administrative procedures were adequate to ensure that:

- transfer payments to agencies were reasonable and satisfactorily controlled; and
- the quality of services provided was monitored and assessed.

The scope of our audit included a review and analysis of the Ministry's administrative procedures and guidelines, as well as interviews with appropriate head office, area office and agency staff. We also reviewed a representative sample of agency files at the Ministry's area offices and visited agency facilities where warranted.

Our audit also included a review of the audit plans and relevant reports issued by the Ministry's Comprehensive Audit and Investigations Branch. However, we were unable to reduce the scope of our audit work as the Branch had not issued any reports on the Ministry's administration of the CFI program in the last two years.

OVERALL AUDIT OBSERVATIONS

Subsequent to our audit of the Child and Family Intervention program in 1993, the Ministry indicated that it was developing a "Policy Framework for Services Funded under the *Child and Family Services Act*," which was expected to address many of the concerns we had at that time. In February 1994, as a result of hearings related to our 1993 report, the Standing Committee on Public Accounts recommended that "the Ministry should establish and adhere to specific timeframes for the implementation of the Children's Policy Framework."

Although the Children's Policy Framework was completed in 1993, it was never implemented. As a result, we found that the Ministry's administrative procedures continue to require significant improvements to ensure that transfer payments to agencies are reasonable and satisfactorily controlled and the quality of services provided is monitored and assessed. More specifically, to better control transfer payments to agencies, the Ministry needs to ensure that:

- funding decisions are based on sufficiently detailed and relevant financial and operational information from agencies;
- the reasonableness of the costs of similar programs funded either within or among different area offices is analyzed and assessed, and significant variances are explained and justified; and
- program surpluses are identified and recovered on a timely basis.

To adequately monitor and assess the quality of services provided, the Ministry needs to:

- implement, measure and evaluate program outcome indicators to determine program effectiveness and identify corrective actions, as required;
- establish standards for an acceptable level and quality of services to be provided, and subsequently monitor and assess those services; and

-
- ensure that a management information system that will allow the Ministry to monitor the cost effectiveness of service delivery is implemented as soon as possible.

DETAILED AUDIT OBSERVATIONS

CHILD AND FAMILY INTERVENTION PROGRAM TRANSFER PAYMENTS

AGENCY FUNDING AND BUDGET REQUESTS

To make informed funding decisions, the Ministry requires sufficiently detailed and relevant information about agencies' services to permit it to assess their funding priorities and needs. However, based on our review of agency funding requests and other work we performed at the agencies, we found that the Ministry lacked the information necessary to make informed funding decisions.

- Program descriptions did not provide sufficient, or in some cases any, detail for assessing the levels of service to be provided, despite the potential for significant differences among programs. For example, none of the agencies we reviewed submitted information to indicate the duration and/or intensity of counselling services to be provided although that information is essential for determining the reasonableness of costs.
- A number of budget submissions combined several different programs into one program budget request. As a result, it was not possible to determine the extent or cost of the individual programs.
- Agencies did not report meaningful operating information such as direct service delivery hours per case worker, a unit of performance that all agencies we visited monitored and assessed.
- Some budget submissions included questionable information, the accuracy of which was not assessed by the Ministry. For example, there was no explanation on file as to why the target number of days of care for one agency exceeded its stated capacity.

In the absence of an analysis based on sufficiently detailed and relevant information about its agencies' services, the Ministry has, in most cases, imposed annual across-the-board percentage funding changes to agencies' base budgets since 1991/92. This practice perpetuates prior years' funding inequities and contributed to the Ministry's funding of questionable items. For example:

- The Ministry paid one agency a total of \$78,000 over the last five years to maintain a building that was not used for the Ministry's CFI program during that time.
- An agency operating in several cities asked the Ministry to reallocate approximately \$900,000 in funding from a location with lower needs to one with higher needs. However, agency management advised us that its request to transfer funding was not approved by the Ministry, with the result that the agency continues to be funded for approximately 20% of its total budget at a location serving approximately 14% of its caseload.

We understand that, for the 1997/98 fiscal year, the Ministry will receive even less detailed operating and financial information from its agencies than it has been receiving to date. For example, expenditure details will be reduced from 18 cost categories for each program to two categories—"salaries" and "other service costs." As a result, it will be even more difficult for the Ministry to assess whether changes in funding are required and whether agencies are meeting the expectations and objectives of the CFI program.

Recommendation

To help provide an appropriate basis for making funding decisions and to help ascertain whether taxpayers' money is spent prudently, the Ministry should ensure that all agencies include sufficiently detailed and relevant information in their program budget submissions.

Ministry Response

The Ministry agrees that sufficient information is required for making funding decisions and to help ascertain whether taxpayer's money is spent prudently. Program budget submissions need to be as complete as possible, while preserving each agency's independence and accountability for the information requested.

Child and Family Intervention agencies have recently started using the Ministry's generic service/budget submission packages. As noted in the Provincial Auditor's report, there are only two expenditure categories on the budget summary. However, details on these expenditures are still required as part of the agency submission. These detailed expenditures are then rolled up for the budget summary. The Ministry will continue its efforts to provide clear instructions to agencies on completing the packages.

The Ministry will also continue to review business practices in order to improve its service targets, introduce outcome-based performance measures and review funding and expenditure information. The Ministry agrees that service/budget submissions should be reviewed and questions raised when information is incomplete or questionable.

PROGRAM COST COMPARISONS

Analyzing the costs of similar programs funded within and among different area offices would assist in ensuring that the programs are funded consistently across the province and would help to identify programs that are not being operated economically and efficiently.

However, the Ministry cannot compare the costs of similar programs since it lacks the necessary information and criteria to determine program comparability. For example, for all non-residential programs, the Ministry defines a unit of service to be an individual served, regardless of the level of service received. Thus, we found that an individual receiving as little as one hour of counselling in a three-month period was counted the same as another individual receiving as

much as 122 hours of counselling during the same time. In addition, the Ministry does not distinguish between individualized therapy and group counselling.

Our own comparisons of both residential and non-residential programs noted significant cost variations, for example:

- the cost of residential care ranged from \$96 to \$367 per individual per day; and
- for one area office, the cost of day treatment programs ranged from \$6,700 to \$11,000 per individual per year.

Since the costs for residential and non-residential services are expected to vary with client needs and the extent of services provided, the above-noted ranges of costs may well be justified. However, Ministry staff lacked the information necessary to determine the reasonableness of either the range of the costs or the costs of the individual programs.

Recommendation

In order to help ensure that program funding is reasonable and appropriate for the services provided, the Ministry should:

- obtain sufficiently detailed information to establish criteria to assess program comparability; and
- compare the costs of similar programs across the province. Significant cost variations should then be explained and justified.

Ministry Response

The Ministry agrees that there is a need to assess comparative program costs. The Ministry is aware that there is a range of funding for individuals with similar needs and that there is a need to rationalize service costs.

As part of its strategy to ensure an efficient use of resources, the Ministry will establish provincial benchmarks for residential care programs in the form of levels of support with corresponding funding ranges. Once provincial levels are established, the Ministry will put into effect funding levels for residential services. These limits will be phased in over a three-year period and will reflect the different needs of individuals and the different kinds of services that they receive.

The Ministry will monitor the implementation of these funding guidelines.

ANNUAL PROGRAM EXPENDITURE RECONCILIATIONS

Agencies are required to submit an Annual Program Expenditure Reconciliation (APER), together with an audited agency financial statement no later than four months after the fiscal year-end. The APER is to be used to reconcile a program's total expenditure with the approved budget in order to identify any surplus and must be approved within 12 months of the agency's year-end.

We found that, for the 1994/95 fiscal year, APERs had been received and reviewed on a timely basis. However, the effectiveness of the process was questionable because both the APERs and audited financial statements lacked the necessary detail or audit assurance to identify inappropriate or ineligible expenditures as the examples below illustrate.

- The Ministry had not required any audit assurance for APERs and in most cases had not obtained other compensating assurance for the completeness or accuracy of the APERs themselves since 1992/93.
- The Ministry often approved accruals for potential future expenditures that were ineligible for reimbursement since they were not paid during the fiscal year or within 30 days of the year-end. For example, in 1994/95 the Ministry provided an agency with funding of \$110,000 for an early intervention project. The APER for that year indicated that all the funds had been spent. However, our review of agency records indicated that only \$17,000 in actual expenditures had been made during that fiscal year or within 30 days of the year-end.
- Agencies often submitted consolidated financial statements for all of their programs and activities. Such statements did not provide enough detail to permit reconciliation with program expenditures or with the approved budgets for the individual programs.
- APERs compare a program's total expenditures to the total budget but neither the APERs nor the agencies' audited financial statements include a comparison of the actual costs incurred to the program's detailed budgeted cost categories which, in our view, would provide more useful information.

Recommendation

To improve the effectiveness of the expenditure reconciliation process in assessing the reasonableness of expenditures and in supporting future funding decisions, the Ministry should ensure that the information submitted in the Annual Program Expenditure Reconciliations and audited financial statements is sufficiently detailed to identify inappropriate or ineligible expenditures.

Ministry Response

The Ministry agrees that Annual Program Expenditure Reconciliations should show enough information to allow for detection of ineligible expenditure items.

The Ministry has taken steps to inform agencies and their auditors of the Ministry's financial policies. Specifically, the instruction package for Annual Program Expenditure Reconciliations, distributed annually to all agencies, contains all relevant policies, including an extensive list of eligible and ineligible expenditures. In the service contract signed by the agencies, it states that they "will comply with Ontario's policies on the treatment of revenues and expenditures." This requires agencies to properly reflect expenditures and surpluses in their financial statements. In order to assist in informing

agency auditors of the implications of these particular policies, the Ministry wrote an article for publication by the Institute of Chartered Accountants of Ontario. The article was distributed to all its members.

In addition, the Ministry continues to take steps to review and appropriately act on all Annual Program Expenditure Reconciliation results. The Ministry has introduced mechanisms to help ensure adherence to its Annual Program Expenditure Reconciliation policies. The Ministry will continue to promote and facilitate increased awareness of these policies for use by agencies and their auditors.

3.03

SURPLUS RECOVERY

Under current ministry policy, agencies may be given approval to retain surplus operating funds in four circumstances: to offset deficits from prior years; to meet critical one-time service requirements; to undertake health and safety initiatives; or to restructure and streamline operations. However, where an operating surplus is to be recovered, ministry policy states that recovery procedures must be under way no later than 12 months after the fiscal year-end and completed within 24 months of that date.

We found that some of the arrangements under which agencies retained surplus operating funds were questionable, as the examples below illustrate.

- The Ministry permitted an agency to retain \$265,000 in operating surpluses which were to be used for the construction of two cabins. We noted that this use did not conform to any of the four circumstances under which agencies may be permitted to retain surplus operating funds. In addition, by permitting agencies to retain surplus operating funding for capital expenditure purposes, the Ministry is by-passing its own capital expenditure planning and priority-setting process.
- Another agency established a \$50,000 "contingency fund" with surplus operating funds. However, the agency's APER did not identify this amount as an operating surplus, and Ministry staff were unaware that this unrecovered surplus remained outstanding.

In addition, the Ministry lacked sufficiently detailed information to demonstrate whether surplus funds were retained for any of the four allowable circumstances identified above. For example, during 1996/97 the Ministry identified \$1.7 million of surpluses at one agency for the 1993, 1994 and 1995 fiscal years. Of this amount, \$600,000 had been recovered by the Ministry, \$1 million had been approved for retention by the agency for various restructuring and health and safety initiatives, and \$100,000 was to be recovered at the time of our audit in March 1997. However, the Ministry had no documentation to indicate whether the agency had spent the retained surplus for the ministry-approved purposes.

Recommendation

The Ministry should review the agency funding arrangements that result in year-end expenditure surpluses and establish more effective procedures to recover these surpluses where appropriate.

Ministry Response

The Ministry recognizes the need to be accountable in recovering surpluses. The Ministry has already taken steps to ensure timely Annual Program Expenditure Reconciliation reporting and surplus recovery as required by policy.

MONITORING OF SERVICES PROVIDED

PERFORMANCE MEASUREMENT

To hold transfer payment agencies accountable for their management of public funds, a Management Board Directive for Transfer Payment Accountability prescribes a four-part framework that includes setting expectations, contracting for services, monitoring performance and taking corrective action when necessary.

As a result of our 1993 report on this program, the Ministry acknowledged the need to improve the measurement of program effectiveness. The Ministry also indicated at that time that its new Children's Policy Framework identified a need for the measurement of effectiveness to improve accountability and that it intended "to focus on clearly identifying appropriate, adequate, and valid client benefit/outcome indicators in providing services to children and/or their families."

However, at the time of our current audit, the Ministry still did not have procedures in place to measure the effectiveness of treatment programs provided by agencies to children and/or their families. Head office staff advised us that outcome measures had been developed in June 1995 as part of the Children's Policy Framework but were never implemented. These measures are now being reviewed as part of the overall ministry restructuring process.

Without such program evaluations, the Ministry can have only limited information indicating the specific effects of treatment programs and whether agencies effectively manage public funds.

Recommendation

To improve the effectiveness of the Child and Family Intervention program, the Ministry should implement and monitor outcome indicators, some of which have already been developed.

Ministry Response

The Ministry agrees that it needs to establish measurable performance targets and indicators and effectively monitor the results achieved against the targets established.

The Ministry will be moving in stages. As part of its 1997/98 Business Plan, the Ministry has developed performance measures for its accountability to the government and to the public. The Ministry will develop additional performance measures for all of its programs and activities. As the Ministry's performance measures are defined, they will be built into the service contracting process.

QUALITY OF SERVICE

The Ministry needs to ensure that services provided by agencies are accurately defined and of acceptable and reasonably consistent standards throughout the province and, ultimately, that they represent value for money spent. As a result, the Ministry needs to establish and communicate standards and criteria for defining the quality of services to be provided and the method and extent to which they should be monitored.

Establishing and monitoring service standards for CFI programs is a difficult task given the diversity of services funded. However, some quality of service standards are common to all services provided, such as staff qualification, staff-to-service-recipient ratios, the selection of an appropriate service methodology and, finally, achieving service outcomes.

In our review of agency files and discussions with agency and ministry staff, we found that acceptable standards of service and criteria for their evaluation had not been developed. As a result, the Ministry did not have assurance that CFI programs were providing services of acceptable quality and represented value for money spent.

Recommendation

To help ensure that services provided by agencies are of an acceptable quality and represent value for money spent, the Ministry should:

- establish standards for acceptable service quality and criteria for evaluation; and
- periodically evaluate service quality with a view to identifying required corrective actions.

Ministry Response

The Ministry is developing performance measures for all its transfer payment agencies, and is moving to a funding process based on these measures. Toward this end, the Ministry will enter into contracts with boards of directors based on these performance measures. The Ministry will then monitor and measure the attainment of the results and evaluate performance in relation to agreed-upon performance measures.

PROGRAM COORDINATION

In 1993 we reported that ministry initiatives were under way to coordinate the many children's programs offered by the Ministry of Community and Social Services, other ministries, agencies

and municipalities. One of the major objectives of these initiatives was to provide coordinated access to an integrated system of services funded under the *Child and Family Services Act*.

However, at the time of our current audit, the Ministry had not yet implemented coordinated access to services. Subsequent to our audit, the Ministry released a new policy document entitled *Making Services Work for People*, which requires local services to be coordinated.

We will again follow up on the Ministry's progress in implementing program coordination when sufficient time has elapsed for implementation of the Ministry's restructuring process.

MANAGEMENT INFORMATION

In 1993 we reported that, with the exception of the total number of active clients reported by its agencies, the Ministry had very little information about the children and families being served by the program. Consequently, we also reported that the Ministry could neither monitor client information nor determine whether agencies were providing services cost effectively. In its response to our findings, the Ministry confirmed the importance of sufficient management information and indicated that it planned to automate service and resource information for all *Child and Family Services Act* transfer payment agencies and directly operated programs by September 1993.

However, at the time of our current audit, the Ministry did not yet have an automated management information system to collect client and program information. The Ministry now hopes to implement the first phase of an information system in the fall of 1997.

Recommendation

The Ministry should ensure that it obtains the information necessary to determine whether services are provided cost effectively.

Ministry Response

The Ministry has now completed the development of an information system to capture both financial and service data. The Ministry will begin implementing this new system in the fall of 1997 in order to have more accurate and timely information about clients and families being served.

SERIOUS OCCURRENCES

The Ministry requires all facilities to report within 24 hours any occurrences such as deaths, serious injuries and assaults or physical abuse of residents. As a result of observations in our 1993 report, the Ministry clarified its definitions and procedures regarding the reporting of serious occurrences.

We found that serious occurrences for this program were now being reported to the Ministry as required.

OTHER MATTER

PROFESSIONAL SERVICES

In some instances, agencies obtain professional services from psychologists and psychiatrists who are paid on an hourly basis.

Our review of hourly rates paid by agencies for these services indicated that they ranged from \$50 to \$93 per hour for psychologists and \$72 to \$150 per hour for psychiatrists. We also noted that:

- there were no guidelines or other requirements for agencies to ensure that rates paid for professional services and travel time were reasonable and consistent with those paid by other agencies;
- records maintained by agencies were inadequate for assessing the accuracy of the number of hours billed; and
- procedures were inadequate to ensure that all services paid for by the agency but billable to the Ontario Health Insurance Plan were properly recovered.

We noted that the Ministry of Health had established clear guidelines for its community-based mental health service agencies with respect to the type of services they should pay for, the hourly rates to be paid and the supporting records to be maintained.

Recommendation

To help ensure that agency payments for the professional services of psychologists and psychiatrists are reasonable and consistent, the Ministry should establish guidelines for agencies to follow when paying for such services.

Ministry Response

The Ministry agrees that guidelines for community-based mental health service agencies regarding types of services, hourly rates and supporting records would be helpful. The Ministry will develop guidelines for agencies to follow when paying for such services.

MINISTRY OF COMMUNITY AND SOCIAL SERVICES

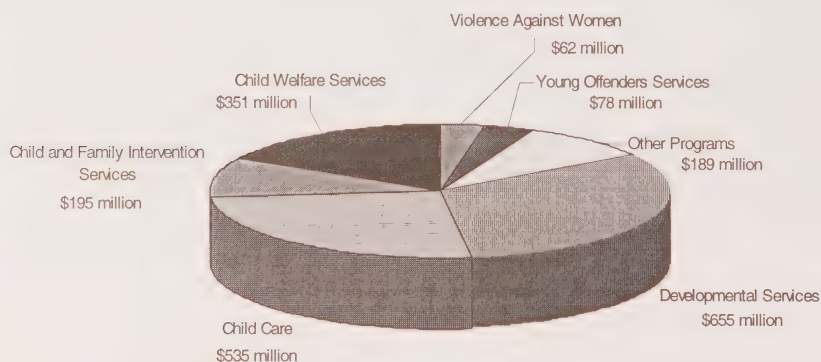
Transfer Payment Agency Accountability and Governance

The Ministry of Community and Social Services plans and arranges for a wide variety of social services throughout Ontario, including services for children and families, young offenders and persons with developmental or physical disabilities.

In most instances, the Ministry does not deliver services itself. Instead, it provides strategic direction and annual funding for service planning and delivery to approximately 3,400 community-based, mostly non-profit agencies.

Ministry transfers to all of its agencies for the 1996/97 fiscal year are estimated at \$2.1 billion. Total transfers by program are as detailed below.

Transfer Payments to Agencies



Source: Ministry of Community and Social Services

Many of the Ministry's transfer payment agencies owe their beginnings to dedicated groups of people who provided social services in their communities on a voluntary basis with little or no support from government. These services have expanded over time due to increased need and

a general trend towards community-based care. As a result, many of today's social services continue to be delivered by community-based agencies with volunteer boards of directors that are independent of the Ministry, even though the Ministry now provides a substantial portion of their funding.

OBJECTIVES AND SCOPE

Our audit objectives were to assess whether the Ministry:

- had established and communicated to its transfer payment recipient agencies reasonable expectations for their accountability to the Ministry as well as for agency governance; and
- had procedures in place to determine whether transfer payment recipient agencies were meeting the Ministry's expectations.

In preparing for this audit, we reviewed a number of documents and publications specifically concerned with governance and accountability. These included enabling legislation, central agency directives and publications issued by authoritative bodies such as the Canadian Institute of Chartered Accountants and the Canadian Comprehensive Auditing Foundation.

The scope of our audit included a review and analysis of the Ministry's administrative procedures, as well as interviews with appropriate head office, area office and agency staff. We also reviewed a representative sample of transfer payment agency files at selected area offices and visited agency facilities where warranted.

Additionally, we sent questionnaires to a sample of chairs of agency boards of directors and to the senior management personnel of agencies that were not selected for interviews or a more detailed file review.

Our audit also included a review and analysis of the audit plans and relevant reports issued by the Ministry's Comprehensive Audit and Investigations Branch. Although the Branch reported on governance problems at individual agencies it had audited, it had not reported on the accountability and governance framework between the Ministry and its agencies and, consequently, we were unable to reduce the scope of our work.

OVERALL AUDIT OBSERVATIONS

In light of the current government's efforts to restructure and outsource service delivery, agency accountability and governance is an increasingly important issue. However, establishing and communicating requirements for the effective accountability of transfer payment recipient agencies to the Ministry and for their governance is a complex undertaking. While a range of options for accomplishing this is available to the Ministry, there are no definitive criteria for establishing the most appropriate accountability and governance frameworks in particular circumstances.

We found that the Ministry deliberately does not involve itself in the day-to-day operations of its transfer payment recipient agencies (hereinafter called "transfer payment agencies"). Its

current approach to agency accountability and governance has evolved over time and attempts to balance the need for agencies to be accountable to the Ministry with the need of agencies to be reasonably autonomous and flexible in carrying out their day-to-day responsibilities. The Ministry has characterized this approach as “overall service system management” of agency service delivery.

Successful overall service system management by the Ministry requires an effective accountability framework to provide assurance of prudent expenditure of public funds and compliance in carrying out program requirements. However, our review of ministry practices indicated that they are generally ineffective in ensuring transfer payment agency accountability for financial performance and service delivery. Based on our review of agency files and subsequent discussions with ministry staff, it was evident that there was considerable confusion and little consensus as to the roles and responsibilities inherent in the Ministry’s stated intention of overall service system management of agency service delivery. For the transfer payment agencies we reviewed, the Ministry lacked sufficiently detailed financial and performance information on which to base informed service planning and funding decisions and, therefore, could not hold the agencies accountable for services provided or funds expended.

With the exception of the annual financial budgeting and settlement process, most of the Ministry’s analysis and understanding of agencies’ operations was not systematic but rather reactive to unusual circumstances which generally came to light as a result of specific complaints. In addition, the results of such analyses and subsequent directions to agencies were often not documented but rather communicated informally through personal contact with individual program supervisors.

The weak accountability relationship between the Ministry and its transfer payment agencies increases the importance of sound agency governance for ensuring agency compliance with ministry expectations. However, we found that the Ministry had not communicated to agencies clear expectations for board roles and responsibilities and their accountability to the Ministry and, therefore, could not readily assess whether agencies were being adequately governed.

In our view, the Ministry needs to significantly improve transfer payment agency accountability and encourage effective agency governance by adopting the principles identified in our detailed audit observations. For example, the Ministry ought to strengthen both the accountability framework between itself and its agencies and the governance of agencies by ensuring that it systematically:

- establishes measurable and meaningful expectations for service outcomes for each program that it funds. In those instances, where establishing measurable and meaningful service outcomes is not practical, the Ministry should define and communicate minimum or acceptable levels of care necessary to meet desired outcomes;
- periodically evaluates service outcomes or the quality of services provided;
- identifies the type of operating and financial information it requires to effectively monitor agency service delivery and financial performance. In particular, the Ministry needs to assess the reasonableness of funding in light of the outcomes or services actually received by clients to ensure that it obtains value for money spent;

- critically assesses agency service delivery costs to ensure funding is reasonable and equitable, preferably at the time of the funding decision or subsequently through its annual financial settlement process; and
- defines and communicates expectations for agency governance and requirements for acceptable operating policies and procedures to be followed by individual agencies.

DETAILED AUDIT OBSERVATIONS

3.04

Many of the Ministry's transfer payment agencies owe their beginnings to dedicated groups of people who provided social services in their communities on a voluntary basis with little or no support from government. These services have expanded over time due to increased need and a general trend toward community-based care. As a result, many of today's social services continue to be delivered by community-based agencies with volunteer boards of directors that are independent of the Ministry, even though the Ministry now provides a substantial portion of their funding.

Given these service delivery and funding arrangements, the Ministry needs an effective means of holding agencies accountable for their expenditures of public funds. It also needs to ensure that the governing boards of agencies are appropriately constituted and adequately informed about both ministry expectations and the performance of their agencies.

In our *1995 Annual Report*, we described a seven-step accountability framework for holding governing bodies of transfer payment recipients accountable for the use of public funds, as described in the table below.

Accountability Framework for Transfer Payment Recipients

<ul style="list-style-type: none"> • The Legislature or the ministry sets objectives and assigns the responsibility for meeting them to a board of directors.
<ul style="list-style-type: none"> • Both parties agree on the specific results to be achieved, as well as how these results will be measured. This step requires a performance contract or memorandum of understanding.
<ul style="list-style-type: none"> • The Legislature or ministry gives the board of directors the authority necessary to carry out its responsibilities and to achieve the specific results; in other words, it empowers the board to do its job.
<ul style="list-style-type: none"> • The board of directors then decides on the most appropriate strategies for achieving the agreed upon objectives, as well as on the specific results and performance to be achieved by the organization. The chief executive officer (CEO) is informed of these aims and is empowered by the board to achieve them.
<ul style="list-style-type: none"> • The CEO reports periodically on results achieved and demonstrates that responsibilities have been carried out appropriately. This process is termed "accounting for results."
<ul style="list-style-type: none"> • After receiving assurance through an objective and independent evaluation, the board of directors reacts to and acts upon the results that the CEO has reported.
<ul style="list-style-type: none"> • Finally, coming full circle, the Legislature or ministry receives, in keeping with the reporting regime it has established, reports from the board of directors about the organization's performance.

Source: Office of the Provincial Auditor

In addition, the issue of what constitutes appropriate accountability and governance relationships has been the topic of a Management Board Directive as well as a number of studies and publications in recent years. Three of these in particular have significantly influenced our views in this area and, consequently, our assessment of the Ministry's existing accountability and governance framework for transfer payment agencies. They are listed below.

- *Management Board Directive 1-11 for Transfer Payment Accountability*, issued in January 1989.

This Directive prescribes a four-step accountability framework with the following key requirements:

- setting expectations with respect to the objectives and results that the transfer payment recipient is to achieve;
- entering into an agreement which ensures that there is an understanding about the objectives and results to be achieved and the responsibilities for reporting performance;
- timely reporting of objectives and results achieved; and
- taking necessary corrective action on a timely basis.

We understand that this Directive is currently being reviewed with a view to strengthening its requirements.

- *Effectiveness Reporting and Auditing in the Public Sector*, published by the Canadian Comprehensive Auditing Foundation in 1987 and followed up in 1994 by a video-documentation package entitled *In Search of Effective Governance*.

These studies conclude that there are 12 attributes of effectiveness that, taken together, provide a comprehensive view of an organization's effectiveness or performance. They propose that management be responsible for providing information on these attributes to their governing bodies and that auditors lend credibility to these representations by attesting to their fairness.

- *Guidance on Control*, published by the Canadian Institute of Chartered Accountants in 1995.

This publication sets out 20 criteria of control that, when in place, support people in the achievement of an organization's objective.

These documents generally concur in their recommendations for effective accountability and governance. Requirements include: establishing measurable performance targets and indicators; effectively monitoring results achieved against targets; and monitoring the relationship between results achieved and costs incurred.

We believe that the direction and guidance provided in the publications cited above need to be considered when implementing our recommendations, which we present under the headings of "agency accountability" and "agency governance."

AGENCY ACCOUNTABILITY

SERVICE OUTCOMES

Service outcomes are the only reason for providing social services. Service outcomes are a direct result of the quantity and quality of services provided by individual transfer payment agencies. Consequently, establishing measurable and meaningful expectations for service outcomes is essential if the Ministry is to evaluate service effectiveness and appropriateness and to assess the reasonableness of costs incurred.

However, our review of the service schedules which form part of an agency's annual budget request and agreement with the Ministry indicated that they generally included only high level descriptions of service activities and provided basic statistical information such as the number of clients expected to be served. They did not provide measurable and meaningful service outcomes where these could have been established. Consequently, the Ministry often lacked the basis for assessing service effectiveness and the appropriateness of costs incurred.

The Ministry has recognized the need to develop a transfer payment agency accountability framework that identifies desired results and monitors and reports progress toward the achievement of those results. For example, in August 1991 the Ministry's Management Committee approved an accountability framework for all transfer payment agencies which was to:

- evaluate service results based on an expected client outcome approach;
- use the elements of the Management Board's Directive for Transfer Payment Accountability;
- ensure that service standards are linked to desired outcomes; and
- support the move to a service system management approach rather than bilateral agency/ministry management.

Although we were advised at the time of our audit that the provisions of this framework had not been implemented, the Ministry plans to implement a similar accountability initiative for all social services over the next two years.

While measurable service outcomes are desirable, we are aware that there are some services for which it is not practical to establish measurable service outcomes which are readily apparent. For example, some service outcomes may be difficult to define, may not be determinable for some time or may be significantly influenced by factors beyond an agency's control. In such instances, there should be clear agreement between the Ministry and the agency involved as to what constitutes appropriate services and criteria for performance evaluation.

Our review of program files and discussions with appropriate staff revealed the absence of such agreements. Therefore, services provided could not be monitored or assessed, and the Ministry had no assurance that they were appropriate in the circumstances or that value for money had been received.

Recommendations

In order to help determine whether services provided by transfer payment agencies are effective, appropriate and represent value for money spent, the Ministry should, where practical, establish measurable and meaningful service outcomes. In cases where it is not practical to establish such service outcomes, the Ministry should establish appropriate service expectations and criteria for performance evaluation.

The Ministry should then periodically assess service outcomes or alternatively service quality and take corrective action where necessary.

Ministry Response

The Ministry agrees that it needs to establish measurable performance targets and indicators; effectively monitor the results achieved against the targets established; and monitor the relationship between the results achieved and the costs incurred.

The Ministry agrees that establishing service outcomes and developing the means to measure and monitor those outcomes is a complex undertaking. Because of this, the Ministry will be moving in stages.

The government has set clear expectations that all ministries will develop comprehensive performance measurement systems for their programs and activities, to support business planning and to enhance public accountability. As part of its 1997/98 business plan, the Ministry has developed performance measures for its accountability to the government and to the public. The Ministry will develop additional performance measures for all of its programs and activities.

AGENCY FUNDING REQUESTS AND APPROVALS

As part of the Ministry's annual financial planning and budgeting process, most agencies are required to submit a standardized budget request package to the Ministry by August 31 of the fiscal year to which it relates. The budget packages generally include a service schedule for each service for which funding is requested and other information such as the amount of funding requested, the number of employees associated with the service and salary levels by position.

The budget request is to be reviewed prior to funding approval, taking into consideration factors such as the previous year's expenditure review and other information available to the Ministry, including government directives.

Our review of the Ministry's funding review and approval process revealed a number of concerns which are illustrated by the following points.

- In order to implement government-directed program constraints, the Ministry has since 1991/92 imposed across-the-board percentage changes to most agency base budgets without regard to prior years' surpluses or deficits or changes in demand for services. For example, for 1995/96 and 1996/97, the Ministry imposed across-the-board funding decreases averaging 3.5% and 2.5%, respectively, for most programs.
- In some cases the Ministry also approved additional contingency or other one-time funding requests. However, there was insufficient evidence in the files we reviewed to indicate that the need for and reasonableness of the amounts requested and approved had been assessed.
- There was also insufficient evidence in the files we reviewed that the Ministry related the amount of an agency's total funding approval to an assessment of the value of the underlying services to be provided. For example, the Ministry did not determine the cost-per-unit of service to permit the comparison of the costs for similar services or the identification of higher-cost services that could benefit from a more detailed review.
- Most budgets were not reviewed and approved until October or November, approximately seven months into the fiscal year.

The Ministry had recognized the need to relate funding requests and approvals to the underlying value of the services to be provided. For example, in the "1995 Child Welfare Contingency Funding Review Guidelines," the Ministry indicated that the impact of volume increases and other unusual circumstances on staffing, travel, client-related professional services and financial assistance costs should be analyzed to determine funding eligibility. For example, where changes in the mix of children result in higher care costs, documentation should clearly explain the reasons for the increase, such as that the children in care are on average older than previously and have increased levels of need resulting in higher placement costs or more hours of service per child.

In our view, the Ministry's overall agency funding review and approval process would be significantly improved if such detailed analyses were required to be performed periodically on each agency's total service costs.

Recommendation

In order to help ensure that service funding is equitable and appropriate for each agency, the Ministry should:

- **critically assess requests for funding and ensure that the amounts approved are commensurate with the demand for and value of the underlying services to be provided; and**
- **review and approve budget requests on a more timely basis.**

Ministry Response

The Ministry agrees that funding amounts approved should be commensurate with the demand for and value of the underlying services to be provided, and the Ministry will document any changes in demand for services when making annual funding decisions.

The Ministry is aware that there is a range of funding for individuals with similar needs and that there is a need to rationalize service costs. As part of its strategy to ensure an efficient use of resources, the Ministry will establish provincial benchmarks for residential care programs in the form of levels of support with corresponding funding ranges. Once provincial levels are established, the Ministry will put into effect funding levels for residential services. These limits will be phased in over a three-year period and will reflect the different needs of individuals and the different kinds of services that they receive.

The Ministry agrees that budget requests should be reviewed and approved on a timely basis and is taking steps to speed up this process.

ANNUAL PROGRAM EXPENDITURE RECONCILIATIONS

In most cases, agencies are required to submit an Annual Program Expenditure Reconciliation (APER) for each program funded, together with an audited agency financial statement no later than four months after the end of the fiscal year. The primary purpose of the APER is to reconcile a program's eligible expenditures with its approved budget in order to identify any surpluses.

An effective and timely APER process could compensate in part for some of the Ministry's deficiencies in reviewing and approving agency funding requests identified in the previous section of this report. However, we found that the APER process was not timely or effective in meeting its intended purpose for the reasons cited below.

- APERs compare an agency's total program expenditure to the approved budgeted amount and therefore cannot detect inappropriate or ineligible expenditure items. Reconciling actual to budgeted expenditures by individually detailed cost categories would, in our view, make this process more useful.
- The audited financial statements submitted by agencies with their APERs are usually prepared on a consolidated basis for all of an agency's programs and activities. APERs are to be prepared on a modified cash basis of accounting, but the financial statements are based on a full accrual accounting basis and, unlike APERs, often have a calendar rather than a fiscal year-end.

As a result, in most cases the submitted financial statements cannot be reconciled with an individual program's reported expenditures or budget and consequently add no credibility to the reported total program expenditure amount.

- In a number of instances, APERs had not been reviewed or approved for prolonged periods of time. For example, we noted one case where an agency's APER had not been completed for the last five years.

We also found that when APER reviews indicated funding surpluses, area offices often did not recover them, but permitted some or all of these surpluses to be retained by the agency for other purposes or reallocated them to other agencies.

However, in our view, prudent financial practice would require all prior years' expenditure surpluses to be recovered and used to reduce the deficit.

Recommendation

In order to improve the effectiveness of the Ministry's Annual Program Expenditure Reconciliation process and obtain useful information for the subsequent year's funding decisions, the Ministry should:

- ensure that both the Annual Program Expenditure Reconciliations and audited agency financial statements contain sufficiently detailed and comparable information to allow detection of ineligible or inappropriate expenditure items; and
- review and appropriately act on all Annual Program Expenditure Reconciliation results on a more timely basis.

Ministry Response

The Ministry agrees that Annual Program Expenditure Reconciliations should show enough information to allow for detection of ineligible expenditure items.

The Ministry has taken steps to inform agencies and their auditors of the Ministry's financial policies. Specifically, the instruction package for Annual Program Expenditure Reconciliations, distributed annually to all agencies, contains all relevant policies, including an extensive list of eligible and ineligible expenditures. In the service contract signed by the agencies, it states that they "will comply with Ontario's policies on the treatment of revenues and expenditures." This requires agencies to properly reflect expenditures and surpluses in their financial statements. In order to assist in informing agency auditors of the implications of these particular policies, the Ministry wrote an article for publication by the Institute of Chartered Accountants of Ontario. The article was distributed to all its members.

In addition, the Ministry continues to take steps to review and appropriately act on all Annual Program Expenditure Reconciliation results. The Ministry has introduced mechanisms to help ensure adherence to its Annual Program Expenditure Reconciliation policies. The Ministry will continue to promote and facilitate increased awareness of these policies for use by agencies and their auditors.

OTHER ACCOUNTABILITY REQUIREMENTS

A recent joint publication by the Canadian Institute of Chartered Accountants and the Canadian Comprehensive Auditing Foundation stated that governing bodies are in effective control when they know what information they need, ensure that they receive it and then take appropriate action based on that information. Accordingly, as a starting point for an effective accountability framework, the Ministry must have a clear understanding of its role in the accountability process and must identify, in specific terms, what information it needs to make informed judgments.

Our review of agency files and subsequent discussions with ministry staff showed that some staff saw their roles as little more than providing funding to agencies, while others indicated that they assumed a much more pro-active and involved service planning and monitoring function. As a result, we found little agreement as to what information ministry staff would need or what analyses and decisions they would have to make to be effective service managers.

Our review of both the financial and service-related information in the Ministry's files indicated that it was inadequate to support the Ministry in assuming an effective service management role, as the points below indicate.

- By not assessing an agency's budget or expenditures in relation to the level and quality of services actually provided, the Ministry can neither measure the agency's performance against its own standards for service delivery nor meaningfully compare the cost of one agency's services against those of other agencies providing the same or similar services.

This concern is compounded by the fact that expenditure reports received from agencies, including APERs, lack the detail necessary to assess the reasonableness of underlying costs or their appropriateness or eligibility for the services to which they are charged. For example, the Ministry often cannot distinguish between expenditures incurred for direct service delivery from those incurred for administrative purposes.

- In many instances, reported expenditures included allocations for shared or other agency overhead costs, even though there was no evidence that the reasonableness of these allocations had been assessed.
- Service-related information on file normally consisted of general service descriptions which lacked sufficient detail to allow assessment of the reasonableness of services actually delivered, results achieved or costs incurred.

We noted that for some types of services, the Ministry did receive more detailed statistical data, such as the number of service recipients for each type of service provided. However, where this information was found on file, there was no evidence that it had been reviewed or what actions, if any, had been taken as a result.

- The files we reviewed contained insufficient evidence that the Ministry had assessed the efficiency with which agencies delivered services. For example, the Ministry did not obtain or review operating statistics such as the percentage of time spent by caseworkers in direct service delivery.
- The Ministry generally did not verify any of the financial or service-related information submitted by agencies, even in cases where significant year-to-year fluctuations occurred.

Recommendation

In order to help ensure that it effectively establishes and manages services delivered by transfer payment agencies, the Ministry should:

- **define its service management roles and responsibilities in a way that allows it to effectively establish and monitor service delivery; and**
- **obtain and analyze the information necessary for effective service management.**

Ministry Response

The Ministry agrees that it has an obligation to ensure that the parties with whom it contracts for services have a clear understanding of and agree to the roles and responsibilities of all the parties in the accountability relationship.

As well, the Ministry believes that timely information should be reported to demonstrate the performance achieved and what has been learned. Steps have been taken to ensure that the Ministry's reporting requirements and information systems are meeting its management needs.

In addition, as the Ministry's performance measures are defined they will be built into the service-contracting process.

AGENCY GOVERNANCE

The Ministry relies on boards of directors to ensure that their administration and the agencies' service delivery are in compliance with the Ministry's requirements. Consequently, the Ministry's role is to ensure that boards of directors develop policies and procedures to meet the Ministry's requirements. The requirements for significant improvements in the Ministry's accountability relationship with transfer payment agencies identified earlier in this section increase the Ministry's reliance on boards of directors to carry out these responsibilities.

However, for such reliance to be warranted, the Ministry needs to define and promulgate the roles and responsibilities of agency boards of directors in the overall service system management process and their accountability to the Ministry to ensure service delivery is in compliance with the Ministry's requirements.

We found that the conditions under which such reliance would be warranted have yet to be established. For example, there is a requirement for the Ministry to define and ensure its expectations are met for:

- agencies' governance and reporting structures; and
- board-developed operating policies and procedures designed to ensure that program service delivery is achieved economically, efficiently and effectively.

In our view, establishing such expectations is particularly important at this time given the increasing complexity of operating social service agencies and the voluntary nature of their boards.

We also noted that provincial associations for some types of agencies have developed accreditation processes to assess, among other things, an agency's governance framework and operating policies and procedures. Although many of these accreditation processes are in their early stages, they are beginning to be performed for some agencies. If the Ministry wants to rely on these accreditations, it needs to satisfy itself as to the adequacy of the accreditations and the manner in which they are carried out.

Recommendation

In order to enhance the reliance the Ministry is able to place on transfer payment agencies' governance and service delivery, the Ministry should:

- establish its expectations for the roles and responsibilities of boards of directors in the overall service systems management process and their accountability to the Ministry; and
- provide guidance on operating policies and procedures necessary for meeting the Ministry's program objectives economically, efficiently and effectively.

Ministry Response

The Ministry agrees that its obligation is to define and contract for the expected results (outcomes) with the boards of directors, monitor and measure the attainment of the results, and evaluate the performance in relation to the contract.

The Ministry, together with the boards, will better define their respective roles and responsibilities so that both parties clearly understand their obligations and carry out their responsibilities accordingly.

MINISTRY OF COMMUNITY AND SOCIAL SERVICES

Young Offender Services Program

3.05

The Young Offender Services program is administered by the Ministry of Community and Social Services under the authority of the provincial *Child and Family Services Act* and Regulations. The program provides services primarily to youths aged 12 to 15 years who are charged under the federal *Young Offenders Act* with a *Criminal Code of Canada* offence or under the *Provincial Offences Act*.

Young offenders who are 16 and 17 years old at the time they commit an offence are served by the Ministry of Solicitor General and Correctional Services. Children under the age of 12 cannot be charged with an offence and are handled outside the young offender legislation, generally by Children's Aid Societies.

The objective of the Ministry's Young Offender Services program is to protect society through a combination of programs that provide for the safety and security of offenders, and to actively assist, support and encourage the offenders to become law-abiding citizens.

The program's primary responsibility is to ensure that young offenders comply with the orders of the Youth Court. Court orders can take the form of either dispositions or detention orders resulting from judicial proceedings or alternative measure sanction referrals by a Crown Attorney. For the 1995/96 fiscal year, the program operated at or near full capacity. The program's service indicators according to the type of court orders were as follows:

Program Service Indicators by Type of Court Order

	Average Daily Count	Annual Admissions	Annual Days of Custody/ Detention	Average Days in Custody/ Detention
Open Custody*	413	3,456	150,834	44
Secure Custody*	260	2,222	94,743	43
Open Detention*	144	5,112	52,494	10
Secure Detention*	110	4,327	39,968	9
Probation and Community Service	—	8,561	—	
Alternative Measures	—	5,962	—	
Totals	927	29,640	338,039	

* Detention is placement in a facility before, or on remand from, a court hearing, while custody results from the terms of a court disposition.

Source: Ministry of Community and Social Services

We noted that since our last audit in 1993 annual admissions to custody and detention programs have increased approximately 43%, while total days of care have decreased approximately 7%. As a result, there are more youth coming into custody and detention programs, but on average they are there for shorter periods of time.

For the 1996/97 fiscal year, the Ministry spent \$127 million on young offender services, including \$79 million in transfer payments to approximately 100 agencies. The federal government contributed approximately \$24 million toward these costs under the provisions of the Young Offenders Cost Sharing Agreement.

OBJECTIVES AND SCOPE

Our audit objectives were to assess whether the Ministry's procedures were adequate to ensure that:

- legislative and judicial requirements and program policies and procedures were complied with; and
- the program was being delivered with due regard for economy, efficiency and effectiveness.

The scope of our audit included a review and analysis of the Ministry's administrative procedures and guidelines, as well as interviews with appropriate head office, area office and agency staff. We also reviewed a representative sample of case files to determine whether documentation on file complied with Ministry requirements. In addition, we reviewed a representative sample of transfer payment agency files and visited agency facilities where warranted.

Our audit also included a review of the audit plans and relevant reports issued by the Ministry's Comprehensive Audit and Investigations Branch. However, we were unable to reduce the

scope of our audit work as the Branch had not issued any reports on the Ministry's administration of the Young Offender Services program in the last two years.

OVERALL AUDIT OBSERVATIONS

During our previous audit of this program in 1993, we identified a number of concerns relating to case file documentation and the funding and inspection of transfer payment agency facilities. While the Ministry generally agreed with our recommendations, we found that many of the recommendations had not been implemented at the time of our current audit.

As a result, the Ministry's administrative procedures continue to require strengthening to ensure compliance with legislative and judicial requirements and program policies and procedures.

Specifically, the Ministry needs to ensure that:

- where required, risk/needs assessments and case management plans for young offenders are initiated, completed and updated on a timely basis;
- case files contain adequate documentation demonstrating compliance with all terms and conditions of probation and community service orders;
- probation supervisors review a sample of each probation officer's files to ensure compliance with required documentation standards, and adequately document the results of their reviews; and
- inspections relating to the annual licensing of young offender facilities involve checking compliance with both *Child and Family Services Act* standards and the additional requirements prescribed in the *Young Offender Services Manual*.

With respect to ensuring economy, efficiency and effectiveness in program delivery, the Ministry needs:

- to critically assess an agency's funding request to ensure that funding approvals are commensurate with the services provided;
- to ensure program surpluses are identified and recovered on a timely basis; and
- to implement, measure and evaluate program, where feasible, outcome indicators to determine the effectiveness of the program.

3.05

DETAILED AUDIT OBSERVATIONS

COMPLIANCE WITH LEGISLATION, COURT ORDERS AND MINISTRY POLICIES AND PROCEDURES

In addition to ensuring that young offenders comply with orders of the Youth Court, the Young Offender Services program is also expected to maximize the opportunities for young offender rehabilitation by providing programs to meet their special needs. To meet such expectations, the Ministry's Children, Family and Community Services Division has developed program delivery standards and guidelines which are contained in the *Young Offender Services Manual*. All service providers are required to comply with the provisions of the *Manual*.

Where required by "guilty findings," dispositions resulting from judicial proceedings are assigned to probation officers who assume all case management responsibilities. There are approximately 210 probation officers working out of 68 probation offices that report to 12 area offices. The case management responsibilities include coordinating required services and maintaining mandatory information on file. Documentation which must be on file in most cases includes: disposition orders, predisposition reports when requested by a judge, risk/need assessments and case management plans, plans of care for custody orders exceeding 30 days, and probation officers' case notes.

CASE MANAGEMENT

A risk/needs assessment and case management plan is to be prepared by a probation officer for every offender who receives a disposition resulting in custody or probation. This plan includes an individual assessment of the young offender's needs and risk level, specific goals for the young offender, a determination of how these goals are to be achieved, and the method of evaluating goal achievement. Updates to the plan are to be prepared regularly until termination or transfer of the offender to another probation office, and must also indicate progress made on the pre-established goals.

The Ministry currently only requires that a risk/needs assessment and case management plan be initiated for all young offenders within 30 days of receiving a disposition from the Youth Court. However, proposed changes would require that the assessment and case management plan be completed within four to six weeks of the disposition date. In addition, assessment and management plan updates are to be completed at various intervals depending on the evaluated risk level of the young offender. For example, if the risk of re-offending is assessed to be high, an update is required every three months. All completed assessments and management plans are to be reviewed and approved by a probation supervisor.

A plan of care must be prepared for every young offender placed in a custody facility for more than 30 days. Plans of care provide a framework for the planning and monitoring of services provided to a young offender while in custody and the young offender's response to these services. When required, plans of care must be prepared within 30 days of admission to a facility and must be updated quarterly. In addition, a discharge report must be prepared within 30 days of the young offender's release from the facility.

At the time of our last audit in 1993, we found that a number of young offender files did not include the then-required "case management plans" or required updates. However, compliance with these documentation requirements was expected to improve with the 1994 introduction of the "Risk/Needs Assessment and Case Management Planning" tool incorporated into the Ministry's computerized Young Offenders Strategic Information System (YOSIS).

However, in reviewing a representative sample of case files for young offenders we found many instances where the file documentation still did not comply with the Ministry's requirements. In a majority of the files at least one of the mandatory documentation requirements described below was missing.

Mandatory Documentation Missing

Required Documentation	Percentage of Files Missing at Least One Document
Risk/need and case management plans including updates	58%
Plans of care including updates	22%
Court Orders	4%

Source: Office of the Provincial Auditor

In addition, our review of province-wide YOSIS data as of December 1996 identified 8,400 active young offender cases requiring a risk/needs assessment and case management plan. Of these cases, 840 did not have an initial risk/needs assessment or case management plan completed within six weeks of the disposition date. Additionally, updated assessments and plans were overdue in 2,300 other cases. For example, we noted that updated assessments and plans for high risk young offenders were overdue an average of four months. In these cases, the last assessment done would have been seven months old since one assessment is required every three months.

In 7,100 active cases at least one risk assessment and case management plan had been completed. However, 1,300 or 18% of these cases had not been signed off in YOSIS as required, indicating review and approval by a probation supervisor. Similarly, risk/needs assessments and case management plans for over 550 closed cases had not been reviewed and approved in YOSIS by a probation supervisor.

Recommendation

In order to ensure and demonstrate that the services provided are appropriate to an individual's needs, the Ministry should ensure that all required case management documentation is completed and updated on a timely basis.

Ministry Response

The Ministry agrees that required case management documentation such as risk needs assessments and case management plans should be completed on a timely basis.

The Ministry already has in place case documentation/management standards in the Young Offender Services Manual requiring: timely completion of case management documents and regular supervision/file review/sign-off by probation supervisors.

In addition, the Ministry will put in place a mechanism for reviewing standards compliance in all young offender program sectors this year.

COMPLIANCE WITH COURT ORDERS

We concluded that the Ministry had adequate documentation on file to demonstrate the enforcement of custody dispositions and alternative measures.

However, where dispositions included probation or community service, 29% of the files that we reviewed lacked adequate documentation indicating whether all of the terms of these dispositions had been completed. For example, in many of these cases documentation was insufficient to demonstrate that probation officers had provided young offenders with counselling services or therapy, or had reviewed school attendance records and progress reports as required by the conditions of probation.

With respect to community service orders, young offenders normally work with individuals or organizations to complete the order. The Ministry then needs to obtain written confirmation of the work completed. However, in one third of the files that we reviewed, there was no written confirmation or other evidence that community service orders had been completed. In addition, the Ministry does not have any guidelines specifying appropriate community service placement or what type of activity qualifies for the completion of a community service order. We also noted that, at one area office, young offenders received bonus hours towards their required community service time for good behaviour and travel time. This is inconsistent with the community service orders issued by the Youth Court.

Recommendation

The Ministry should ensure that each file contains adequate documentation to demonstrate compliance with all applicable Youth Court orders. In addition, the rationale for the Ministry's use of discretion in connection with community service order placements should also be fully documented.

Ministry Response

The Ministry agrees that case management files should include adequate documentation to demonstrate compliance with court orders, including community service orders administered through outside agencies.

Ministry procedures focus on non-compliance which is to be specifically identified and followed up. On termination of the order, the file is to more fully reflect the youth's compliance and non-compliance, the officer's response to non-compliance and the status on termination.

These expectations are confirmed in the updated Young Offender Services Manual. All case management documentation will be monitored through regular supervision and compliance review.

BRING FORWARD NOTES

When a young offender's disposition information is recorded in YOSIS, the system automatically generates bring forward due dates for the initial risk/needs assessment and case management plan and subsequently required updates. Probation officers therefore are able to use this system to track when risk/needs assessments and case management plans and updates need to be prepared.

We noted that many probation officers did not use this optional feature of the system to track when initial reports or updates were due. In December 1996 YOSIS bring-forward reminder reports indicated that approximately 460 initial risk/needs assessments and case management plans and 3,500 updates were overdue. On average, the reports or updates were overdue approximately five months.

We also found that the system allows probation officers to:

- arbitrarily delete or change system-generated bring forward due dates; and
- change the date that a risk/needs assessment and case management plan was actually completed in YOSIS by backdating the report at any time prior to its review and sign-off by a probation supervisor.

Recommendation

In order to help ensure that all the required documentation needed to perform an effective case management function is prepared and updated in a timely manner, the Ministry should remind its probation officers that:

- although optional, the bring forward feature on the Young Offenders Strategic Information System should be used to monitor risk/needs assessment and case management plan due dates; and
- outstanding bring forward notes should be cleared on a timely basis.

Ministry Response

The Ministry agrees with the importance of timely case management documentation.

The responsibilities of probation officers for case management documentation are identified in the updated Young Offender Services Manual. The Ministry recognizes that the bring forward system is one tool available to them for tracking when reports are due.

The Ministry will reinforce requirements for timely documentation through regular supervision and compliance review. In addition, the Ministry will ensure through the Young Offenders Strategic Information System Business Practice Guide that probation staff are aware that the bring forward system may be used to track due dates.

CASE FILE REVIEW

Ministry policy requires probation supervisors to conduct comprehensive semi-annual reviews of a sample of case files to ensure compliance with case management and documentation standards. However, the policy does not specify what the review should encompass or what file review documentation is required.

We were unable to find any file documentation or other evidence that the required case file reviews had been completed. This was particularly worrisome in light of the file deficiencies previously noted. However, at the time of our audit we noted that one area office had implemented a standard review checklist that it had developed to promote consistent case file reviews.

Recommendation

To ensure that Ministry policy is followed and that probation officers perform their duties satisfactorily, the Ministry should require probation supervisors to review a representative sample of young offender files for each probation officer and adequately and consistently document the results of their reviews.

Ministry Response

The Ministry agrees that case management files should be reviewed periodically by probation supervisors.

The Ministry has approved new Young Offender Services Manual standards requiring regular supervision of all probation officers as part of ongoing performance management. The expectations include the specified components of file review, with the results to be documented and used in improving performance as necessary.

LICENSING OF RESIDENTIAL FACILITIES

The licensing provisions of the Regulations under the *Child and Family Services Act* set out minimum acceptable standards for the provision of residential care to children. As a result, the Ministry inspects and licenses young offender facilities to ensure that they are in compliance with the Regulations and, for example, meet fire safety and health standards.

Our review of licensing files for young offender facilities indicated that the licensing reviews were up to date and the facilities met the requirements of the *Child and Family Services Act*.

However, as we reported in 1993, additional standards for young offender facilities prescribed in the *Young Offender Services Manual* had still not been incorporated into the Ministry's licensing inspection checklist, even though the Ministry indicated at that time that it would do so. As a result, inspectors advised us that they currently do not review young offender facilities for compliance with the *Manual's* additional requirements, for such things as: lowering the resident to staff ratio; having a minimum of two workers awake at night; using, training, supervising and insuring volunteers; and using mechanical and physical restraints.

Recommendation

The Ministry should ensure that the additional standards required in the *Young Offender Services Manual* are incorporated into the young offender facility inspection and licensing process.

Ministry Response

The Ministry agrees that the Young Offender Services Manual standards should be incorporated into the licensing checklist.

The Ministry will pilot a compliance review mechanism which includes the integration of Young Offender Services Manual standards with the Child and Family Services Act requirements contained in the licensing checklist.

SERIOUS OCCURRENCES

The Ministry requires all facilities to report within 24 hours any occurrences such as deaths, serious injuries, assault or physical abuse of residents. As a result of observations in our 1993 report, the Ministry changed the serious occurrence reporting procedures by issuing a "Question and Answer" package which clarified the definitions and procedures regarding the reporting of serious occurrences.

As a result, we found that serious occurrences were generally reported to the Ministry as required.

DUE REGARD FOR ECONOMY EFFICIENCY AND EFFECTIVENESS

AGENCY ACCOUNTABILITY

In order to hold transfer payment recipients accountable for their management of public funds, a Management Board Directive on Transfer Payment Accountability prescribes a four-step framework that includes setting expectations, contracting for services, monitoring performance and taking corrective action when necessary.

The Ministry advised us that accountability is currently achieved through service planning, funding reviews, annual expenditure reconciliations, facility inspections and licensing, and the Ministry's working relationship with agencies.

AGENCY FUNDING

Many Ministry projects and studies—some dating back to 1980—have indicated that service funding should be based on an assessment of priorities and identified needs. Implementation of this principle would ensure that funding is appropriate for the circumstances involved and commensurate with the underlying services provided.

Notwithstanding the Ministry's earlier studies, young offender agencies continue to be funded on the basis of historical cost budgets adjusted for across-the-board percentage funding changes, rather than on an assessment of individual priorities and needs. In addition, in some cases where the Ministry approved additional one-time funding, there was no evidence in the files we reviewed that the Ministry assessed the reasonableness of the additional amounts requested or approved.

We identified significant variances in the cost of similar custody services provided by both the Ministry and transfer payment agencies.

Cost Variances by Type of Custody

Type of Custody	Budgeted Cost Per Day Based on Full Occupancy for Agencies Reviewed (\$)	Province-Wide Average Costs Per Day by Area Office, Based on Actual Expenditures and Occupancy (\$)
Secure Custody (Ministry operated)	264-353	303-407
Secure Custody (Agencies)	207-349	238-427
Contracted Open Custody (Agencies)	173-305	186-365
Per Diem Open Custody (Agencies)	103-230	103-230

Source: Ministry of Community and Social Services data

Since the cost per day of custody is expected to vary with client needs and the extent of services provided, the above-noted range of costs may well be justified. However, due to a lack of detailed cost information or other analysis performed by the Ministry, it was unable to demonstrate the reasonableness of either the range of costs or the individual program costs incurred.

From our review of agency funding requests and other work that we performed at the agencies, we noted a number of questionable items whose reasonableness had not been assessed. The following examples illustrate our concerns.

- A fully funded agency, which normally provided nine beds, was paid an additional \$60,000 by the Ministry in the 1995/96 fiscal year to provide a tenth bed. However, this bed was accommodated within the existing physical layout of the facility and incurred little, if any, incremental cost to the agency.

Our review of the agency's occupancy records indicated that the tenth bed was occupied for only 50 days during the year and for six months was not used at all. In fact, the facility's average daily occupancy was only eight individuals during the whole year.

We also noted that in 1995/96 the agency received \$36,000 for building rent which represented an increase of approximately 60% from the previous year.

- Another agency was paid \$830,000 in the 1995/96 fiscal year for “one-time expenses” without assessing the reasonableness of this amount.

Recommendation

In order to help ensure that total program funding and subsequent expenditures are reasonable and appropriate, the Ministry should:

- assess the reasonableness of all funding requests; and
- compare the costs of similar programs. Significant cost variations should then be explained and justified before funding is approved.

Ministry Response

The Ministry acknowledges that criteria for assessing the reasonableness of funding requests should be documented. The Ministry will document any changes in demand when making annual funding decisions.

The Ministry agrees that there is a need to assess comparative program costs. The Ministry is aware that there is a range of funding for individuals with similar needs and that there is a need to rationalize service costs. As part of its strategy to ensure an efficient use of resources, the Ministry will establish provincial benchmarks for residential care programs in the form of levels of support with corresponding funding ranges. Once provincial levels are established, the Ministry will put into effect funding levels for residential services. These limits will be phased in over a three-year period and will reflect the different needs of individuals and the different kinds of services that they receive.

ANNUAL PROGRAM EXPENDITURE RECONCILIATION

Agencies are required to submit an Annual Program Expenditure Reconciliation (APER), together with an audited agency financial statement, no later than four months after the fiscal year-end. APERs are to be reviewed and approved by the Ministry within 12 months of the fiscal year-end. The APER is to reconcile a program's total actual expenditure with the approved budget in order to identify a surplus, if any.

We found that the APER process was generally ineffective for the following reasons.

- While most agencies submitted their APERs and audited financial statements on a timely basis, many of them were not reviewed or approved by the Ministry within one year as required. For example, one agency's APERs had not been reviewed or approved for the past five years resulting in approximately \$1.5 million in declared surpluses not being recovered. The Ministry advised us that “the timing of the recovery was delayed pending a determination regarding the future direction of the program” at this agency.

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- In some instances the Ministry had not pursued agencies that had not submitted APERs or audited financial statements on a timely basis. For example, during the past seven years one agency had submitted only two audited financial statements and three APERs, which identified \$102,000 in surpluses. The agency's last APER related to the 1993/94 fiscal year and the last financial statement was for 1992/93.

We also noted that the Ministry's Comprehensive Audit and Investigations Branch had reviewed the agency's 1993/94 financial records and identified additional ineligible and inappropriate expenditures totalling \$91,000 for that year.

At the completion of our audit, both the APER-identified surpluses and the ineligible and inappropriate expenditures remained unresolved.

Even in cases where APERs and audited financial statements had been received, reviewed and approved by the Ministry on a more timely basis, the effectiveness of the process was questionable because both the APERs and audited financial statements lacked the necessary detail or required financial statement note disclosure to identify inappropriate or ineligible expenditures. For example, based on our review of agency records, we noted that the Ministry:

- has not required any audit assurance for the completeness or accuracy of the APERs themselves since 1992/93;
- approved accruals of future expenditures for such items as anticipated pay equity settlements, when only amounts actually paid within 30 days of the year-end are eligible for reimbursement; and
- approved a \$60,000 administration fee paid to an agency's owner/operator without establishing the reasonableness of the fee.

Recommendation

In order to improve the effectiveness of the expenditure reconciliation process in assessing the reasonableness of expenditures and in supporting future funding decisions, the Ministry should ensure that:

- the information submitted in the Annual Program Expenditure Reconciliations and the audited financial statements is sufficiently detailed to permit a more meaningful review; and
- all agency Annual Program Expenditure Reconciliations and audited financial statements are received, reviewed and approved on a timely basis.

Ministry Response

The Ministry agrees that Annual Program Expenditure Reconciliations should show enough information to allow for the detection of ineligible expenditure items.

The Ministry has taken steps to inform agencies and their auditors of the Ministry's financial policies. Specifically, the instruction package for Annual Program Expenditure Reconciliations, distributed annually to all agencies, contains all relevant policies, including an extensive list of eligible and

ineligible expenditures. In the service contract signed by the agencies, it states that they "will comply with Ontario's policies on the treatment of revenues and expenditures." This requires agencies to properly reflect expenditures and surpluses in their financial statements. In order to assist in informing agency auditors of the implications of these particular policies, the Ministry wrote an article for publication by the Institute of Chartered Accountants of Ontario. The article was distributed to all its members.

In addition, the Ministry continues to take steps to review and appropriately act on all Annual Program Expenditure Reconciliation results. The Ministry has introduced mechanisms to help ensure adherence to its Annual Program Expenditure Reconciliation policies. The Ministry will continue to promote and facilitate increased awareness of these policies for use by agencies and their auditors.

SURPLUS RECOVERY

Under current ministry policy, agencies are allowed to retain surplus operating funds with prior approval in four circumstances: to offset deficits from prior years; to meet critical one-time service requirements; to undertake health and safety initiatives; or to restructure and streamline operations. However, where an operating surplus is to be recovered, recovery procedures must be under way no later than 12 months after the fiscal year-end and be completed within 24 months of the year-end.

We found that some of the funding arrangements resulting in surpluses and the dispositions of these surpluses were questionable, as the examples below illustrate.

- The Ministry paid one agency \$336,000 during the 1994/95 and 1995/96 fiscal years for two different projects.

At the beginning of the 1995/96 fiscal year the agency was paid \$106,000 which was to establish a fund for future years' purchases of extra services for high-risk young offenders. The Ministry would approve requests by other agencies to provide these services and instruct the agency to transfer the required funds. However, the \$106,000 was paid to the agency even though it already had an accumulated surplus of \$71,000 from similar funding in the previous years. We also noted that during the period from April 1995 to December 1996 only \$38,000 was spent from this fund, leaving \$139,000 of surplus funds at the agency. Furthermore, the Ministry did not keep records for reconciling the funds given to the agency with the amounts transferred to the other agencies which are necessary for determining the balance unspent.

The second project involved a one-time payment of \$230,000 paid to the agency in the 1994/95 fiscal year for unspecified purposes. Although the funds were not spent, they remained with the agency until November 1996 when they were identified as surplus and were transferred to various other agencies for a range of different uses.

-
- Another agency was paid \$193,000 in the 1991/92 fiscal year to establish a transportation fund. The fund was cancelled in March 1995 and the money declared surplus as no expenditures had been made from the fund by the agency. At the time of our audit, the agency had been given permission to spend \$109,000 of the funds for other specified purposes.

Because of the Ministry's lack of detailed cost information or analysis by program, its staff was unable to determine whether allowing the agencies to retain prior years' surpluses was justified or consistent with the four previously identified circumstances for surplus retention. Additionally, in our view prudent government-wide policy would require all prior years' expenditure surpluses to be recovered and used to reduce the deficit.

Recommendation

The Ministry should review the agency funding arrangements that result in year-end expenditure surpluses and establish procedures to recover these surpluses.

Ministry Response

The Ministry recognizes the need to be accountable in recovering surpluses. The Ministry has already taken steps to ensure timely Annual Program Expenditure Reconciliation reporting and surplus recovery, as required in the Annual Program Expenditure Reconciliation policy.

PROGRAM EFFECTIVENESS

Shortly after the *Young Offenders Act* came into force in 1985, the Ministry commissioned a consultant to carry out a study for evaluating the implementation of the Act. This included identifying realistic and measurable program objectives and suitable performance indicators for various functions such as custody, probation, alternative measures and community service.

As a result of our 1993 report, the Ministry acknowledged the need to further improve the evaluation of program effectiveness. The Ministry also indicated that a "Policy Framework for Services Funded under the *Child and Family Services Act*" had proposed developing outcome indicators to better assess the effectiveness of various young offender programs.

However, at the time of our current audit, the Ministry still had no outcome measurements to assess the effectiveness of young offender programs province-wide. Head office staff advised us that outcome measures had been developed in June 1995 as part of the Children's Policy Framework, but were never implemented. These measures are now being reviewed as part of the overall ministry restructuring process.

Except for some recidivism (return to crime) studies relating to young offenders in open custody or probation at certain area offices, the Ministry has not conducted any province-wide studies to determine what happened to young offenders after their court dispositions were completed. Such studies would be a first step in evaluating the program's effectiveness.

Although Ministry staff agreed that a long-term follow-up of discharged young offenders was needed to accurately evaluate the program, they indicated that such studies posed problems. These included the difficulty of tracking the young offenders after they have completed their disposition and the high cost of carrying out such a long-term study.

However, without such evaluations, the Ministry has limited information indicating the specific effects that the programs have had in the rehabilitation of young offenders. Additionally, the Legislature lacks information as to whether the programs offered have been a worthwhile investment.

Recommendation

In order to determine whether the Young Offender Services program is effective, the Ministry should implement and monitor the outcome indicators already developed. If considered feasible, this evaluation should also include measuring the success of the various programs in rehabilitating young offenders over the long term.

Ministry Response

The Ministry agrees that it needs to implement measurable performance targets and indicators and effectively monitor the results achieved against the targets established.

The Ministry will be moving in stages. As part of its 1997/98 Business Plan, the Ministry has developed performance measures for its accountability to the government and to the public. The Ministry will review the draft performance targets and indicators for young offenders as part of this plan. As the Ministry's performance measures are defined, they will be built into the service contracting process.

OTHER MATTER

STAFFING

In 1990 a Ministry staffing study concluded that a probation officer's case management duties could be translated into a "workload equivalency." The Ministry established a benchmark workload of 42 case-point equivalents which translated into approximately 28 actual cases at that time.

Since 1990 the Ministry has implemented a number of policy changes and has introduced various case-management tools. Given these changes, the 1990 workload benchmark may no longer be applicable. We also noted that probation officers currently manage between 30 and 70 actual cases.

Recommendation

To better assess the reasonableness of staffing levels, especially in light of the many program policy changes since 1990, the Ministry should establish a more current workload expectation.

Ministry Response

The Ministry will consider the reasonableness of probation workload in the context of increasing demands for service and constrained resources.

As resources have been reduced and caseloads have increased since 1990, the Ministry has streamlined the administrative expectations of probation officers through the implementation of the standardized risk/needs assessment and case management plan. Further refinement is anticipated through the updated documentation standards and compliance review in 1997/98.

Ontario Student Assistance Program

3.06

The Ontario Student Assistance Program (OSAP) is a federally and provincially funded program that provides needs-based financial assistance to full-time and part-time students to enable them to attend an approved postsecondary institution. Under the *Ministry of Colleges and Universities Act* and Regulations, provincial financial assistance to students is provided primarily by loans under the Ontario Student Loans program. The Ministry of Education and Training receives a fee from the federal government to assess students' needs and authorize loans under the Canada Student Loans program.

During the 1996/97 fiscal year, the Ministry authorized and guaranteed new Ontario Student Loans totalling \$754 million and approved a further \$893 million in new Canada Student Loans. In 1996/97 about half of the students in approved postsecondary institutions received OSAP loans. The average combined loan amount was \$7,780.

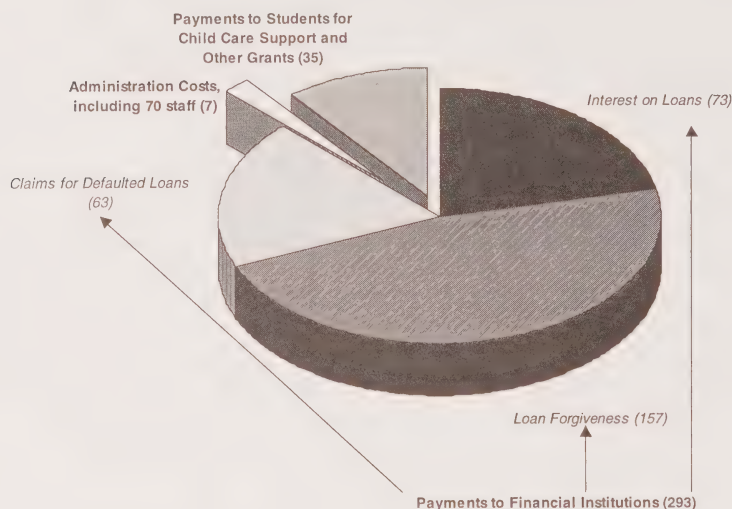
The amount students may borrow under the programs depends on their circumstances, but for each week of study cannot exceed \$275 for single students and \$500 for married or sole support students. All Ontario and Canada Student Loans are provided by banks directly to students under the terms prescribed in the respective provincial and federal legislation. While students are expected to repay their loans, the Ministry pays banks the interest on their student loan balances while the students attend school and for the six months following completion, and also guarantees repayment of the principal amounts should students default. The federal government does not pay interest on Canada Student Loans during the six months following completion and since August 1, 1995 no longer guarantees such loans.

Commencing in the 1993/94 fiscal year, Ontario Study Grants were replaced by a Loans Forgiveness Program which limits the amount of loans a student will be required to repay for each two terms of study to \$6,000. A loan forgiveness payment, which reduces a student's loan payable, is made directly to a bank soon after studies are completed and the student commences repayment.

As of March 31, 1997, there were some 438,000 Ontario Student Loans totalling \$2,195 million guaranteed to banks by the province. About 32%, or \$714 million, was loaned to students who had completed their studies and were repaying their loans. It is expected that approximately \$800 million or over half of the remaining loans will be forgiven in the future.

For the 1996/97 fiscal year, program expenditures totalled \$335 million and were disbursed as follows.

OSAP Expenditures for Fiscal 1996/97 (\$ Millions)



Source: Ministry of Education and Training

OBJECTIVES AND SCOPE

Our audit objectives were to assess whether the Ministry had established adequate systems and procedures:

- to ensure that the program was being delivered economically, efficiently and in accordance with the program's legislated authority and approved policies and guidelines; and
- to measure and report on its effectiveness in achieving the program's legislated and stated goals and objectives.

Our audit was conducted primarily at the Student Support Branch located in Thunder Bay and included such interviews, audit procedures and testing as we considered necessary. In addition, we contacted financial institutions, postsecondary institutions and the federal government to inquire about their roles and relationships with the Ministry. We also researched student financial aid programs in other jurisdictions and reviewed relevant work on the Branch by the Ministry's Audit, Compliance and Evaluation Branch.

OVERALL AUDIT OBSERVATIONS

The Ministry would obtain substantial savings from implementing initiatives introduced in other jurisdictions to reduce the risk and cost of defaulted student loans. For example, other provinces and the federal government have entered into agreements with their financial institutions

that transfer the risk of losses from student loan defaults to the institutions for a fee. Additionally, other jurisdictions have taken punitive measures against postsecondary institutions experiencing high student default rates.

We also noted other significant savings opportunities and improvements that were needed, including:

- better oversight of the program delivery activities of postsecondary institutions by the Ministry;
- better verification of the information provided by students in their applications for assistance; and
- much more timely and effective efforts to identify and recover over \$100 million in loan, loan forgiveness and bursary overpayments, and defaulted student loans.

The Ministry has worked to reduce program costs by improving procedures, delegating more responsibilities to postsecondary institutions and increasing automation. The Ministry's cost per application has decreased from approximately \$47 to \$27 over the last five years, and the Ministry expects the costs to decline further with the implementation in 1997 of additional automation and refinement of financial and administrative systems and procedures. However, delays in implementing new systems to automate the transfer of information and transactions between the Ministry and financial and postsecondary institutions have resulted in large processing backlogs with financial institutions and delayed further reductions in program costs.

The Ministry also needs to establish performance measures that demonstrate the efficiency and effectiveness of the program. These measures should reflect the achievement of the OSAP business plan and the relationship between OSAP policies and results and other postsecondary education policies such as funding for postsecondary institutions, tuition fees and access to postsecondary education. These results should be reported annually to the Legislature.

DETAILED AUDIT OBSERVATIONS

CONTROLS OVER POSTSECONDARY INSTITUTIONS

The majority of students in Ontario submit their applications and supporting documents to the Financial Aid Office or registrar of their postsecondary institutions. While procedural guidelines for these offices are established by the Ministry, the institutions provide the staff and resources to help their students obtain financial assistance. Offices are expected to ensure that applications are properly completed and include the necessary supporting documentation. Once approved by an officer, applications are forwarded to the Ministry for determining eligibility and loan entitlement amounts. Supporting documentation remains at the institution.

Over the last several years, the 37 Financial Aid Offices have been delegated additional decision-making responsibilities, such as hearing student appeals and administering special assistance bursaries for disabled students and those requiring child care assistance. In addition, Financial Aid Offices have been equipped with on-line computer terminals permitting officers to

directly update the Ministry's student database such as changing a student's enrolment status, marital status or address.

While institutions have been delegated key responsibilities for delivering the program, no agreements have been established with them specifying mutual responsibilities or the institution's accountability and reporting requirements to the Ministry. An agreement would clearly establish the Ministry's ability to monitor compliance to OSAP requirements and document a formal commitment from an institution's senior management as to what expectations and standards are to be met and when.

There has also been a lack of oversight by the Ministry regarding the quality of work done by the institutions. After an institution has been approved to participate in OSAP, there has been no further monitoring of its delivery of the program. Most of the 360 approved institutions in Ontario have participated in the program for many years, yet no periodic inspections had been done to verify that adequate records have been kept on students or that procedures complied with program requirements.

We examined a representative sample of files from institutions for applicants approved during the 1995/96 academic year in order to assess the extent to which program requirements had been met. We determined that the information available in several of these files was inadequate to support the officers' approvals and that in some cases students had been provided with more assistance than warranted.

Extensive information on students exists in the Ministry's OSAP databases. However, this information has not been used to help reduce the risk of abuse by students or institutions. There are virtually countless risk analyses that can be done. For example, our own analyses detected several single parent students who obtained additional funding by claiming an increase of at least three children from the previous year. We forwarded these cases to the Ministry for further investigation.

The risk of abuse of the program can be high. For example, the Ministry identified an institution that had inappropriately approved a large number of applications from students reporting no income. A forensic audit was still in progress at the time of our audit and \$3.8 million in inappropriately released loans had so far been identified. The institution has reimbursed the Ministry for this amount and committed to implement proper procedures to prevent future occurrences.

In the fall of 1996 a Standards, Monitoring and Compliance Unit was created to develop performance standards, analysis and inspection tools, and compliance enforcement procedures. As of December 1996 these were under development and so new procedures had not yet begun.

Some other provinces do random audits of a sample of students to verify the accuracy of information submitted on their applications. Such audits have the added benefit of evaluating the due diligence of the institutions and the quality of the procedures that they have performed.

Recommendation

In order to improve the way postsecondary institutions deliver key aspects of the Ontario Student Assistance Program, the Ministry should:

- establish agreements with approved postsecondary institutions that set out mutual responsibilities and appropriate accountability and reporting requirements;
- develop a program for inspecting postsecondary institutions based on analyses of the risk of abuse by students or institutions;
- perform regular audits in order to identify postsecondary institutions that do not adhere to program requirements or abuse the program; and
- establish appropriate disciplinary measures for institutions that do not meet requirements.

Ministry Response

The Ministry has initiated the development of agreements with postsecondary institutions that set out roles and responsibilities and disciplinary measures for institutions that do not meet these requirements. It is anticipated that the agreements will be finalized and signed by all approved Ontario postsecondary institutions by March 31, 1998. Performance agreements for OSAP-approved private vocational schools have been developed and signed.

In 1997/98 the Student Support Branch, in conjunction with the Ministry's Internal Audit and Private Vocational Schools Units, will develop an audit strategy for postsecondary institutions. Other jurisdictions will be consulted to identify best audit practices. Based on this analysis a systematic audit program will be implemented in 1998/99.

APPLICATIONS ADMINISTRATION

PROCESSING OVERVIEW

During the 1996/97 fiscal year, the Ministry received approximately 257,000 applications for financial assistance. All applications received by the Ministry are scanned and stored electronically for later retrieval on-line, and then sent out for data entry by a private sector service provider. Applications are electronically checked for accuracy, completeness and eligibility and assessed for loan entitlement based on criteria such as student type, reported income, educational costs and standard living allowances. While the federal and provincial loans programs are similar, certain eligibility criteria differ and a separate determination of loan entitlement is required for each.

After eligibility is approved and the entitlement determined, students are sent Loan Authorization Forms for Canada Student Loans and/or Ontario Student Loans, depending on the postsecondary institution and educational program in which the student has enrolled. In cases where both types of loans were approved, Canada Student Loans represented 60% of the authorized loan amounts with the remaining 40% authorized by the province. Students take their Loan Authorization Forms to any participating financial institution and may borrow up to the authorized amounts.

DETERMINING LOAN ENTITLEMENT AMOUNTS

Ontario is the only province that has not yet implemented the federal government's needs assessment criteria which were revised in 1994. These criteria use more recent federal living allowance data for assessing student needs and determining loan entitlements. Needs assessment criteria in use in Ontario were established by the federal government in 1984.

In addition, prior to 1993/94 students were provided with Ontario Study Grants before being assessed for loans, and assistance was reduced or denied for applicants with access to significant real or personal assets such as savings accounts, investments and recreational properties. However, since such grants were discontinued in 1993/94, assets have not been included in the loan entitlement calculations.

Ministry management stated that adoption of the new federal criteria was postponed in 1995/96 because the federal government did not finalize the criteria in time for proper implementation and in 1996/97 because of the public service strike. They expected to revise the needs assessment criteria and consider assets for students applying for 1997/98 and subsequent academic years.

Since 1995 the Ministry has been questioning students reporting no income for themselves or their spouses as to how they were able to sustain themselves without an income. However, other very low incomes are not questioned. For example, we identified over 700 students that reported total family incomes below \$1,000 on their 1995/96 applications. A more appropriate minimum income level needs to be established for requiring an explanation from an applicant prior to approval.

Recommendation

In order to ensure that loan entitlements are properly determined, the Ministry should:

- update needs assessment criteria to use more recent federal information;
- give due consideration to student and spousal assets when calculating loan entitlements; and
- require explanations from applicants who report personal and spousal incomes below a specified level.

Ministry Response

Effective for the 1997/98 academic year, the federal government's financial needs assessment criteria based on various federal databases (for example, Statistics Canada Family Expenditure Survey, Canada Mortgage and Housing data) will be used to calculate Canada and Ontario student loan entitlements.

As is the case for Canada Student Loans, student and spousal assets will be used in 1997/98 for Ontario Student Loan purposes. Revisions will be made to the Ontario Student Loan Regulation 774 to permit consideration of student and spousal assets in determining loan entitlements.

An analysis of income data will be completed prior to the commencement of the 1998/99 academic year to determine: what level of reported income will require explanations from applicants; necessary procedures; and the consequences for applicants incorrectly reporting low incomes.

CHILD CARE SUPPORT

Students with children can apply for additional financial assistance to cover the cost of child care expenses while in school. Payments for child care support were \$14.7 million for the 1994/95 fiscal year, and \$20.7 million for 1995/96. The Ministry distributed approximately 34% directly to students and the remainder was managed by the Financial Aid Offices in publicly funded institutions.

We concluded that procedures to establish eligibility for child care support were inadequate.

Prior to the 1996/97 fiscal year, OSAP provided child care support in the form of bursaries. Funds were disbursed to students at the start of the school term with the condition that students subsequently provide receipts for actual child care expenses incurred. The Ministry was in the process of recovering a substantial portion of these bursaries because over 50% of the students failed to provide receipts. No controls were in place at the time to discontinue further child care support in subsequent periods to students who failed to provide receipts in the previous period. During our audit, the Ministry had identified recoveries of \$1.6 million in child care bursaries relating to the 1993/94 fiscal year and part of 1994/95, and was in the process of determining recoveries for the balance of 1994/95 and all of 1995/96.

In addition, in 1994/95 and 1995/96 students were not required to provide documentation substantiating their custody of children. Consequently there was an increased risk during this period that students could have misrepresented themselves in order to obtain child care support grants.

For the 1996/97 fiscal year, new policies were implemented whereby students must now provide documents supporting custody of each child, loans instead of bursaries are now provided for the first two children, and child care receipts are no longer required for the first two children.

However, the Ministry repays loans above \$6,000 per two terms of study under the Loans Forgiveness Program and students with children typically qualify for loans exceeding this amount. Given that the additional loans provided for child care will likely be forgiven, we believe that it would be prudent to reinstate the policy requiring receipts for all child care expenses.

Controls were also insufficient for the \$20 million annually in bursary funds, including child care support, managed by the 37 Financial Aid Offices in postsecondary institutions. For example, financial reports submitted by the institutions were not audited or reconciled with the Ministry's accounting records, and the students that received assistance were not identified. Risks such as duplicate child care support paid to a spouse attending a different institution and inappropriate use of bursary funds by institutions are possible without such controls.

Our review of files received from Financial Aid Offices also determined that a large number of students had not provided receipts for child care expenses incurred prior to 1996/97 and thus

should have their bursaries recovered. The Ministry could not determine whether Financial Aid Offices were forwarding all such cases to the Ministry so that appropriate recovery procedures could begin.

Recommendation

To improve controls over bursary payments and in particular child care support, the Ministry should:

- revise procedures and system controls to ensure that child care support is not provided to students who fail to submit receipts; and
- establish appropriate reporting and monitoring procedures for bursary funds managed by postsecondary institutions' financial aid offices.

Ministry Response

In conjunction with postsecondary institutions, the Ministry has implemented procedures for the 1997/98 academic year to ensure that Child Care Bursary funding is provided only to students who provide proper child care receipts. The feasibility of verifying reported child care expenses with Revenue Canada will be explored in 1997/98.

Appropriate reporting and monitoring procedures for bursary funds managed by Financial Aid Offices will be included in the student assistance administration agreements established with postsecondary institutions. Postsecondary institutions have been advised that audits of several institutions' bursary fund management practices will be conducted in 1997/98.

VERIFICATION OF INCOMES WITH REVENUE CANADA INFORMATION

The Ministry has information-sharing arrangements with Revenue Canada to permit verification of incomes reported on student applications against income tax information. If students who understate incomes are detected early enough, the Ministry will reduce their loan entitlements for subsequent periods or reduce their entitlements under the Loan Forgiveness Program.

We had several concerns regarding the income verification process.

- Students are required to report on their applications the income they earned during the 16-week period prior to studies, but these amounts can't be verified using income tax information. Prior year's income, which can be verified, was not requested or used for assessment purposes. Only parental income and spousal income was verified, which would have affected only about half of the students who applied. Therefore, the effectiveness of the income verification process was quite limited.

- Verification efforts were not timely. Income verification for loans issued in the 1993/94 and 1994/95 fiscal years was not done until October 1996 and November 1996, respectively. These income verification efforts identified approximately \$6.3 million to be recovered from students. Delays in verifying income resulted in the Ministry having to initiate collection procedures because most of the identified students were no longer attending school and often had already had large portions of their loans forgiven.
- The recent income verification also identified approximately 25,000 students whose loans should each have been at least \$1,000 less than the authorized amount and some 20 students whose loans should each have been at least \$15,000 less. The Ministry does not require the students to immediately repay their loans when it is determined that they have understated their incomes. Consequently, we estimate that the Ministry pays over \$600,000 per year to banks for interest on ineligible loans.

Recommendations

In order to enhance the effectiveness of using Revenue Canada income tax information to verify incomes, the Ministry should:

- revise its needs assessment criteria and applications to include consideration and reporting of a student's income for both the prior year and the 16 weeks prior to starting school; and
- investigate students with significant discrepancies between incomes reported to Revenue Canada and the Ministry and consider more severe actions against those students, such as requiring immediate repayment of loans or, in cases of gross misrepresentation, taking legal action.

To reduce the risk of overpayments under the Loan Forgiveness Program, income verification should be done on a more timely basis and forgiveness should not be authorized until income verification has been completed.

Ministry Response

Since the Ministry has aligned Ontario Student Loan assessment criteria with criteria developed by Human Resources Development Canada for Canada Student Loans, consistent with the Provincial Auditor's recommendation, changes to student loan assessment criteria must be negotiated and developed with Human Resources Development Canada. The Ministry has requested Human Resources Development Canada to consider implementing the recommendations made by the Provincial Auditor for 1998/99. In the interim, the Ministry is presently analyzing potential methodologies to estimate total annual income based on information provided by students for both the 16 week pre-study period and the study period.

Effective for 1997/98, students with large discrepancies in incomes reported in previous years will be denied student loan funding until such time as the discrepancies can be explained or funding inappropriately received in previous years is repaid. The Ministry is working with Legal Counsel to determine in what situations legal action can be taken. Amendments to existing Ontario Student Loan Regulations will be tabled with the Legislature's Regulations Committee that, if approved, will give the Ministry much broader authority to collect and take action against students that have fraudulently obtained Ontario Student Assistance Program funding.

The Ministry has established procedures to ensure that income verification is done on a regular, annual basis. Effective for 1997/98, Loan Forgiveness payments will not be made until students have consolidated loans for repayment and all income reported has been verified with Revenue Canada.

ADDITIONAL VERIFICATION MEASURES

There are several other electronic sources of information that could be used to verify information provided on students' applications. For example, data linkages may be possible with:

- the registrar of births, marriages and deaths to verify information about children and marital status;
- drivers' licences and motor vehicle registrations to obtain current addresses; and
- enrolment records at schools to verify a student's status and program.

In addition, since the August 1, 1996 changes to legislation governing social assistance, most students attending postsecondary schools are now being denied social assistance and consequently are applying for OSAP. Data linkages with the Ministry of Community and Social Services would help detect instances where students have received both loans and social assistance.

Recommendation

In order to enhance controls over eligibility and needs verification, the Ministry should investigate the costs and benefits of establishing data linkages with other information databases.

Ministry Response

In April 1997 the Ministry of Education and Training and the Ministry of Community and Social Services signed a data exchange agreement with the purpose of identifying the potential extent of students receiving student and social assistance support at the same time.

The Ministry will review the feasibility of linkages with other information databases in 1997/98.

FINANCIAL MANAGEMENT

We concluded that internal controls over payments were less than satisfactory. We noted many opportunities for improving processing efficiency and reducing costs using better information and procedures. In addition to the deficiencies noted below, we informed the Ministry of several less significant audit observations and recommendations for improving internal controls, operations and accountability, and for reducing costs.

AGREEMENTS AND PROCEDURES WITH FINANCIAL INSTITUTIONS

As of February 28, 1997 over 150,000 documents were backlogged because the Ministry's automated processing systems had rejected documents that contained errors. Staff must investigate the reasons for the errors, which can be time consuming as the financial or postsecondary institution often must be contacted to provide additional information. While the Ministry was monitoring the number of documents in backlog, the backlog had been growing steadily for some time and no timetable had been set for reducing it to a more manageable level. Backlogs generally delay payments to the financial institutions.

The need for new procedures with financial institutions was evident in November 1996 when a bank requested that the Ministry use students' social insurance numbers to compare the bank's database of student loans with that of OSAP. The analysis determined that over 2,000 loans did not match and another 5,000 had not been processed by OSAP because of errors.

The Ministry is working toward more automated information exchanges and transactions with financial institutions that will improve processing efficiencies and reduce discrepancies between the records of OSAP and the financial institutions. The Ministry is installing new computers in 1997, at a cost of approximately \$800,000 annually, that are intended to support these efforts, along with other cost-saving initiatives. The Ministry expects these initiatives to reduce annual program costs by \$2.6 million starting in the 1997/98 fiscal year.

When the existing computers were purchased in 1991, their acquisition was justified in part on the basis of savings to be derived from establishing Electronic Data Interchange (EDI) with the financial institutions. While the changes in 1991 helped to reduce the cost of processing an application from \$47 to \$27 over the last five years, EDI with the banks was never implemented. No formal agreements exist with financial institutions to clearly define roles and responsibilities, nor has a timetable been established for implementing EDI arrangements with banks to achieve the desired benefits.

While financial institutions are provided with administrative guidelines and a periodic newsletter which outlines procedural requirements, formal agreements with the financial institutions would also help clarify accountability for the increasing program delivery responsibilities being delegated to them. For example, the Ministry requires financial institutions to obtain and retain supporting documentation from former students who request assistance under the Interest Relief Program. To assist debtors who experience temporary hardships, the Ministry will pay the interest on their loans for six month periods to a maximum of 18 months. During the 1996/97 fiscal year, interest relief payments were approximately \$4.9 million. Since financial institutions benefit from this program by receiving continued interest on loans, responsibilities and requirements must be clearly established to ensure that interest relief is provided only to debtors who qualify.

Recommendation

In order to improve payment processing efficiency and to formalize relationships with financial institutions, the Ministry should:

- establish plans, timetables and commitments for reducing backlogs to a more manageable level;
- negotiate formal agreements with the financial institutions for implementing the new automated financial arrangements and for clarifying program delivery expectations; and
- track the achievement of the benefits arising from the proposed Electronic Data Interchange arrangements with the financial institutions.

Ministry Response

The Ministry has now established plans to eliminate existing backlogs with major lenders. In light of the significant systems changes required by the Ministry and lenders, this will be a multi-phased project with the intention of eliminating backlogs by the end of 1998.

In 1997/98, as part of negotiations and anticipated agreements with lenders for an Income Contingent Loan Repayment Program, the Ministry will enter into formal agreements with lenders to clearly delineate procedures, roles, responsibilities and time lines. These agreements will include performance measures that will identify and quantify the benefits of Electronic Data Interchange.

PAYMENT SYSTEM WEAKNESSES

Our testing of various types of payment transactions indicated that many controls over payments were working as intended. However, we noted several ways to improve the information used to calculate and control payments.

- Two separate databases and systems are used to administer the OSAP: one for processing applications and authorizing new loans to students; and the other for loans administration, including payments to banks. We noted significant differences between these databases resulting from updating each system separately with the same information. For example, a computerized comparison of the data contained on the two systems identified approximately 15,000 discrepancies, primarily due to the timing of updates in each system. The discrepancies involved differences in the dates used for calculating interest and loan forgiveness payments.

Financial Aid Offices directly update the applications administration database using their on-site terminals for such changes as student withdrawals from schools. The loans administration database is only updated when the Ministry receives documentation from the Financial Aid Offices. However, we noted there were delays in the reporting and processing of approximately 30% of the student withdrawals from postsecondary institutions, many of which were delayed from six months to one year.

- The loan authorization forms for Ontario and Canada Student Loans permit students to obtain loans from financial institutions up to the authorized amounts. While most students obtain loans for the full amount, some students borrow lesser amounts. Although financial institutions are required to report to the Ministry the actual amounts borrowed for both Ontario and Canada Student Loans, only about half provide this information for Canada Student Loans. When this information is not provided, the loans administration system calculates loan forgiveness payments using the amounts authorized for Canada Student Loans and the actual amounts of Ontario Student Loans. We estimated that this method of processing loan forgiveness payments has resulted in overpayments of approximately \$5 million annually.
- The Regulation permits loan forgiveness payments only for students who enter into repayment arrangements with their financial institutions. However, we estimated that approximately \$4 million annually was paid in loan forgiveness to certain banks for students who failed to make any repayment arrangements and defaulted on their loans. This situation arises because the Ministry, in order to improve processing efficiency, allows these banks to automatically request loan forgiveness payments six months after students have completed their studies. In any case, the banks would have collected the \$4 million from loan repayment guarantees. However, the Ministry attempted to collect from the students only the lesser amount after loan forgiveness payments. Since these students were not entitled to loan forgiveness, reported default payments were understated and loan forgiveness payments were overstated.

Recommendations

In order to better ensure that payments to financial institutions are appropriate, the Ministry should:

- determine and correct differences in important information on its two major databases, and examine options for better integrating its two databases to avoid differences arising in future;
- ensure that complete information is received on the actual amounts that students obtained for Canada Student Loans; and
- ensure that systems and procedures for processing forgiveness payments comply with legislation.

The Ministry should also obtain the actual amounts of Canada Student Loans issued in the last three years in order to determine and recover overpayments of loan forgiveness.

Ministry Response

The Ministry plans to integrate the Ontario Student Assistance Program assessment database and the Ontario Student Loan administrative databases as part of the ongoing work to improve the coordination of Ontario Student Loan administration with lenders. It is anticipated that this will be complete by the end of 1998.

The Ministry will work with lenders as they revise their computer systems to ensure that the appropriate data transfers are made to calculate loan forgiveness entitlements.

Effective 1997/98, Loan Forgiveness payments will be made in compliance with Ontario Student Loan Regulations (for example, only in situations where all income has been verified and students have consolidated loans for repayment).

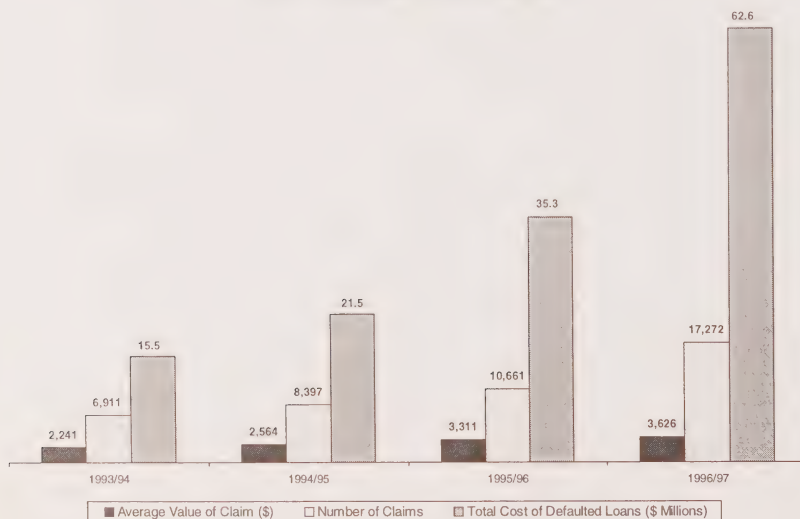
The Ministry will also work with the federal government and lenders to obtain information on the actual value of Canada Student Loans negotiated by individual students.

DEFAULTED STUDENT LOANS

THE RISING COST OF DEFAULTED STUDENT LOANS

Recent growth in the student loans portfolio, due to the elimination of Ontario Study Grants, higher demand and larger loans, has also resulted in a significant increase in payments to financial institutions for students who default on their Ontario Student Loans, as demonstrated by the following chart.

Trend in Student Loan Defaults



Source: Ministry of Education and Training

This escalating trend is likely to continue unless further measures are introduced to reduce defaults and improve collection efforts and results. We noted several areas for improvement as described below.

COLLECTION EFFORTS

Delays in processing default claims and initiating collection actions tend to reduce the chances of successful recovery from delinquent debtors. On November 19, 1996 the Cabinet approved the use of private collection agencies to replace the Central Collection Service of the Management Board Secretariat for collecting all debt owed to the province, including delinquent student loans. However, private collection agencies for student loans were not expected to be selected until the end of March 1997.

There has been a serious lack of student loan collection activity during the last year, primarily because Central Collection Service experienced a 50% reduction in staffing and had not accepted new loans for collection since May 1996.

Status of Accounts To Be Collected as of October 31, 1996

Location of Claims	Number of Claims	Value of Claims	Collection Efforts
Central Collection Service	31,000	\$55 million	Minimal collection activity in the last year
Ministry	10,000	\$30 million	Returned from Central Collection Service – no collection activity
Ministry	4,000	\$14 million	Unprocessed – no collection activity
Total	45,000	\$99 million	

Source: Central Collection Service and Ministry of Education and Training

Neither Central Collection Service nor the Ministry could provide us with reliable information regarding the results of past collection activity on defaulted student loans.

DEFAULT RATES AT POSTSECONDARY INSTITUTIONS

Postsecondary institutions with poorer quality educational and placement programs and lower standards for admission contribute to student defaults. However, the Ministry only recently took steps to identify postsecondary institutions whose students experienced high default rates. A mid-1996 analysis prepared by the Ministry indicated that default rates for institutions varied from 5% to over 50%. Additionally, program management has acknowledged that rates have been unacceptably high at certain institutions. All institutions were advised of their default rates and requested to take appropriate measures to reduce the rates. The Ministry plans to monitor default rates again in future years.

However, no sanctions have been imposed on educational institutions experiencing high student default rates. Other jurisdictions, such as Alberta and the United States, disqualify institutions

from participating in their loan programs if their default rates exceed 25%. In addition, some American student financial aid programs prohibit profit-oriented schools from participating in their programs if more than 85% of their revenues are derived from these programs. The presumption under this rule is that if profit-oriented schools are providing quality programs and services they should be able to obtain a reasonable percentage of their revenues from other sources.

While the Ministry already calculates the participation rates of students requiring financial assistance for universities and colleges, no rate is calculated for students attending the more than 250 approved private vocational schools in Ontario. The Ministry does not obtain the enrolment statistics needed to accurately calculate the rates. However, this information could be required as a condition of eligibility for participating in OSAP.

PRACTICES USED IN OTHER JURISDICTIONS

As stated earlier, the Province fully guarantees Ontario Student Loans. Consequently, there is less incentive for financial institutions to make rigorous collection efforts prior to filing a claim for reimbursement of a defaulted student loan. The time taken prior to filing a claim also further reduces the province's chances of collection. In addition, the Ministry's efforts to recover defaulted student loans have been limited to normal collection activities and disqualifying students from further assistance.

Other jurisdictions have introduced stronger measures to reduce the risk and cost of defaulted student loans, as the following examples illustrate.

- Other provinces and the federal government have achieved significant savings by paying financial institutions to assume all the risks of defaults and collection activities. The financial institutions are paid a risk premium based on a percentage of the amounts borrowed and students are required to pay interest at slightly higher rates. With Ontario Student Loans issued exceeding \$750 million annually and a default rate prior to collection activities of about 15%, the potential for savings to Ontario from such a risk premium arrangement is significant as long as a risk premium that is less than the default rate can be negotiated.
- The federal and Quebec governments can collect delinquent student loans by offsetting debtors' income tax refunds, but this collection method has not been established with Revenue Canada for delinquent Ontario Student Loans.
- The collection measures used in some other jurisdictions include taking legal action and reporting defaults to credit bureaus.
- Some student financial aid programs in the United States legally require debtors to keep the program informed of their address, thus facilitating the collection of debts. To reduce defaults, these programs also require schools to provide formal entrance and exit counselling to students to ensure that they fully understand their debt obligations.
- In Australia, a Higher Education Contribution Scheme was introduced in 1989 administered through the taxation system, whereby students repay their loans based on a percentage of their taxable income each year once a minimal level of taxable income is reached. Income contingent repayment student loan programs have since been introduced in Sweden, the United Kingdom, New Zealand and the United States.

One federal initiative that should reduce student loan losses is the new federal bankruptcy legislation which prevents students from including their student loans in discharged debt while they are still in school or are within two years of graduation.

Recommendation

In order to reduce the losses arising from defaulted student loans, the Ministry should:

- ensure that systems are in place to promptly process defaulted claims and expeditiously transfer delinquent accounts to the private collection agencies, once selected; and
- examine options used in other jurisdictions both to improve collection and to reduce the risk and cost of defaulted student loans.

Ministry Response

The Ministry will formalize and streamline transfer procedures of delinquent loan accounts from lenders to private collection agencies. The procedures will be developed and articulated in the formal agreements that will be developed with financial institutions.

The Ministry will identify and implement best practices from other jurisdictions to improve collection activities and reduce the cost of defaulted student loans.

The federal government has agreed to work with Ontario to put in place a process to recover outstanding amounts of student assistance funding owed to the province (for example, loan defaults, bursary overpayments) through income tax refunds. It is anticipated that this will be in place for the 1997 taxation year.

Our research suggests that other jurisdictions and Ontario will be unable to negotiate such favourable risk premium arrangements with financial institutions in the future. The most effective way to reduce the risk and cost of defaulted student loans is to develop an Income Contingent Loan Repayment system. The Ministry is actively pursuing this option with the Ontario Ministry of Finance, Human Resources Development Canada and financial institutions. It is anticipated that an Income Contingent Loan Repayment Program will be available to Ontario students in September 1998.

Central Collection Service Response

Central Collection Service (CCS) is presently undergoing major changes. This Unit is moving to a new business model which includes giving up its role as a "collector" and becoming the "manager" of the collection process. Under this new model, the private collection agencies will handle 100% of the collection activity.

Also, in partnership with the Ministry of Finance, an interim plan of action has been formulated to collect defaulted student loans (18,000 accounts, \$64 million as of May 1997) in the program area in Thunder Bay. As of April 1997, CCS has approximately 20,000 student loan accounts in its system amounting to \$43.7 million. Once the new Collection Management Unit is established, and the contracts with the private collection agencies are in place, these accounts will be forwarded to them for further collection activity.

In November 1996, CCS entered into a contract with four private collection agencies under the Overdue Account Pilot Project to collect aged, written-off debt accounts including over 6,000 student loans amounting to \$18.4 million.

CCS is also an active member in the Corporate Accounts Receivable Project which focuses on improving cash management and revenues/recoveries and reducing outstanding accounts receivable and write-offs.

PERFORMANCE REPORTING

Each year the Ministry publishes in its Estimates Briefing Book the extent of support provided to students, as well as the number of applications processed and approved and the total amounts awarded. This information does not permit assessment of the efficiency or effectiveness of the program or the achievement of the OSAP business plan. Few measures have been established to make such an assessment and those that do exist are not publicly reported. For example, application processing turnaround times and costs and information about the outcomes of eligibility/income verification and collection activities are measures that would better demonstrate service and administrative efficiency.

There are also many indicators that the Ministry can and should report that would better demonstrate how its student financial aid programs interrelate with other government postsecondary education policies, such as funding and tuition fee policies that affect the students' share of the cost of postsecondary education. Examples of trends that can be monitored and reported include: levels of student financial assistance versus tuition fees; proportion of students that require financial assistance by type of postsecondary institution (universities, colleges, and private vocational schools); growth of the student loans portfolio; debt burdens of students in Ontario versus other jurisdictions; and default rates on loans. This type of information has not been reported for OSAP since it issued its last annual report for the 1987/88 fiscal year, whereas other jurisdictions are reporting at least some of this information annually.

Recommendations

To improve accountability, the Ministry should develop and regularly report performance measures to evaluate the efficiency and effectiveness of the Ontario Student Assistance Program and achievement of business plans.

To facilitate policy and decision making, information on how student assistance programs interrelate with other government policies and compare to student support levels provided by other jurisdictions should also be reported.

Ministry Response

As part of the Ministry's Business Plan process, the Ministry is developing performance measures to evaluate the Ontario Student Assistance Program in 1997/98. These performance measures will be reported to the provincial Legislature in future ministry Business Plans.

3.06

Conservation and Prevention Division

Under the *Environmental Protection Act*, the *Ontario Water Resources Act*, the *Environmental Assessment Act*, the *Waste Management Act* and a number of related acts, the Ministry of Environment and Energy is charged with a broad mandate of protecting the quality of the natural environment in order to safeguard the ecosystem and human health.

The Ministry's Conservation and Prevention Division is responsible for promoting the reduction of waste and pollutants and the conservation of energy and water. It is also responsible for programs that facilitate environmentally sensitive decision making in land use and economic development issues through effective planning and environmental assessment. In addition, the Division provides funding to municipalities for water and sewage capital projects.

For the 1996/97 fiscal year, the Division had about 180 staff and total expenditures of \$224 million, of which \$200 million related to grants provided to municipalities for waste reduction and for water and sewage capital projects.

OBJECTIVES AND SCOPE

Our audit objectives were to assess whether satisfactory procedures were in place to:

- measure and report on the performance of the Conservation and Prevention Division in contributing to the effectiveness of the Ministry in protecting the environment and human health; and
- ensure that grants were disbursed with due regard for economy.

Our audit included a review and analysis of all relevant documentation and management reports pertaining to the activities of the Division, as well as discussions with appropriate staff. We also reviewed relevant work on the Division by the Ministry's Management Audit Branch. The work of the Branch on grant payments for water and sewage projects was useful in reducing the extent of our work in that area. Its observations on the monitoring of such grant payments were incorporated in our report.

OVERALL AUDIT OBSERVATIONS

To be more effective in meeting the provincial waste reduction goal, the Ministry needs to measure and report on the effectiveness of its waste reduction programs and work with the municipalities to reduce the cost of collecting and processing recycled materials in their communities.

To better protect the environment through the environmental assessment process, the Ministry needs to establish indicators to measure and report on the effectiveness of the process and monitor compliance with the terms and conditions of approved projects.

In our 1994 *Annual Report* we indicated that significant savings could be achieved if municipalities were required to review water conservation and system optimization measures and, where applicable, implement such measures before water and sewage expansion projects were approved for provincial funding. While the Ministry agreed with our recommendation, the requirement was still not in place at the time of our current audit. To ensure that due regard for economy is observed, we again recommend that such a requirement be established as a prerequisite for the approval of future expansion projects.

Furthermore, the Ministry needs to verify information that has a direct impact on eligibility and the amount of funding for water and sewage projects, and to monitor actual project expenditures more closely to ensure timely identification and recovery of overpayments.

DETAILED AUDIT OBSERVATIONS

WASTE REDUCTION

Out of concerns for environmental protection and for the lack of landfill capacity in the province, the Ministry in 1989 announced two waste reduction goals: a reduction in solid waste disposal of at least 25% by 1992; and a further reduction to 50% by the year 2000. The reductions were to be achieved by means of the "3Rs" (Reduction at source, Reuse and Recycling).

To support these waste reduction goals, the Division has given its Waste Reduction Branch the key responsibility of developing and delivering programs designed to reduce the waste going to landfill sites. In this regard, branch staff:

- develop and implement regulations, policies and guidelines that support the "3Rs";
- provide technical and financial assistance to municipalities and industries in processing materials diverted from landfill sites and in identifying markets and uses for such materials; and
- monitor demand and price trends in the marketplace to assist municipalities in developing markets for recycled materials.

GRANTS ADMINISTRATION

The Division provides financial assistance to municipalities and industries in support of waste reduction initiatives such as the Blue Box Program. In 1996/97 the amount of grants disbursed totalled approximately \$10 million. Grants for waste reduction are currently being phased out.

We reviewed the grants in support of waste reduction and were satisfied that adequate procedures were in place to ensure that the disbursement of grants complied with the terms and conditions of agreements with the recipients.

EFFECTIVENESS OF WASTE REDUCTION

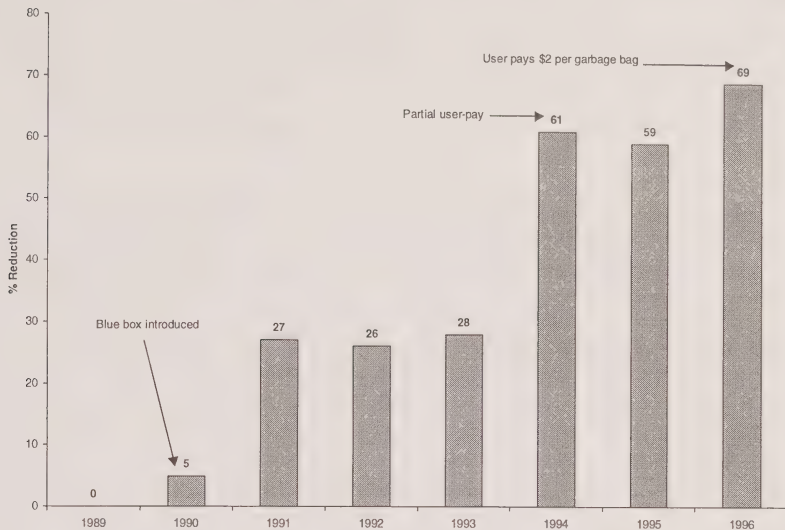
At the time of our audit, the Ministry had collected data on solid waste disposal up to 1994. The data indicated that solid waste going to landfill and export declined from 7.7 million tonnes in 1990 to 7 million tonnes in 1994. For the same period, capital and operating expenditures for municipal garbage collection and disposal declined from \$873 million to \$693 million.

Since the 1989 Ministry announcement of waste reduction goals, the provincial recycling initiative had been widely accepted by the municipalities. By 1994 over 500 municipalities, representing approximately 3,000,000 households or 94% of the Ontario population, had already established recycling (Blue Box) programs.

Ministry officials informed us that the 1989 waste reduction goals were based on total solid waste disposed of in 1987, on a per capita basis. On that basis, the Ministry indicated that the province has achieved its first reduction goal of 25% by 1992. However, as most municipalities have already established their recycling programs, success since then has been more limited. Ministry officials estimated that an additional reduction of 5% had been achieved since 1992 or about 30% of the 1987 base year.

In reviewing the best practices of Ontario municipalities, we noted that a number of smaller municipalities (population under 50,000) were successful in reducing waste beyond the provincial average of 30%. In addition to recycling, the key factor common to their success was the application of some kind of user-pay principle to encourage reduction and reuse. The significant reduction of solid waste attained by applying the user-pay principle is demonstrated by the reduction data from one of these municipalities as illustrated below.

User-Pay Effects on Waste Reduction



Source: Ministry of Environment and Energy

The municipality involved initiated the Blue Box recycling program in 1990. This municipality's recycling experience was similar to that of other municipalities in that it was able to reduce its waste by over 25% and levelled off shortly after the recycling program was introduced.

To educate the public and promote reduction, the municipality in 1994 and in 1995 gave out 52 free tags for garbage bags to every household in the community. All garbage bags had to be tagged to be picked up. If households required more than 52 bags for the year they had to purchase additional tags at \$1.50 each. As a result of this initiative, the municipality was able to increase its solid waste reduction from 28% to 61%.

In 1996 free garbage tags were no longer given out and all tags cost \$2 each. All revenues from the sales of tags were to be used to reduce property taxes. By applying the full user-pay principle, solid waste reduction was increased by an estimated 10% beyond the 1995 level.

While the user-pay principle has been a success when it was implemented, its use has not been accepted in a number of larger municipalities. Residents of these municipalities perceived the user-pay principle to be a form of double taxation over and above their property tax and were also concerned about the possibility of illegal dumping.

The Ministry has committed \$390,000 for conducting pilot projects to investigate the applicability of user pay in three larger municipalities. The Ministry has plans to encourage more use of pilot/demonstration projects to generate more ideas/options for waste reduction.

At a strategic level, a business plan for the Waste Reduction Branch was completed in May 1997. The business plan outlined the directions of the Branch, including its missions, goals and strategies, that would guide all activities undertaken by the Branch. However, we noted that

the provincial goal of a 50% reduction in solid waste disposal by the year 2000 was not mentioned in the business plan.

While the provincial reduction goal was to be achieved in less than three years, our review indicated that the Ministry had not measured or reported on the effectiveness of its waste reduction programs since 1994. Without a timely assessment of the effectiveness of its various waste reduction programs, the Ministry cannot adjust strategies or develop appropriate action plans on a timely basis.

Recommendation

To be more effective in meeting the provincial waste reduction goal, the Ministry should:

- incorporate the provincial goal in the Waste Reduction Branch business plan to guide all waste reduction activities; and
- measure and report on the effectiveness of its waste reduction programs to permit the timely adjustment of strategies and the development of action plans.

Ministry Response

The Waste Reduction Branch used the provincial waste reduction goal to develop its business plan and develop priority projects. The provincial goal will be formally noted in the branch business plan.

The Ministry will monitor and report on the effectiveness of its waste reduction programs and use those measures to adjust the strategies and action plans as the province works toward the reduction target.

The Waste Reduction Branch has recently requested diversion data for 1995 and 1996. The information collection was coordinated with the Association of Municipal Recycling Coordinators, the Corporations Supporting Recycling, and the Recycling Council of Ontario. This data will be collated and released in 1997.

RECYCLING (BLUE BOX) PROGRAM

Marketable materials collected by the municipal recycling program (commonly known as the Blue Box Program) can be grouped into six major categories, namely: glass, paper fibre, corrugated cardboard, steel cans, aluminum cans and plastic bottles. These materials are usually reported to the Ministry by weight. The latest data gathered by the Ministry for 1994 indicated that the municipalities had collected 470,000 tonnes of these materials.

SUSTAINABILITY OF BLUE BOX PROGRAM

The Blue Box Program was designed to be financially self-sustaining or at least affordable to the municipalities after five years of provincial assistance. Initially, the municipalities received start-up capital funding from the province and \$20 million from a private industry group formed

to support recycling. The province also provides grants to assist municipalities with their operating costs for the first five years of the Blue Box Program. Since the Program's inception in 1986, the province has provided over \$200 million in capital and operating grants to the municipalities. Currently, capital and operating grants (1996/97 — \$8 million) are being phased out as most municipalities have already operated their Blue Box Program for more than five years.

At the time of our audit, the Ministry had not compiled cost and revenue data from municipalities relating to the Blue Box Program for 1995 and 1996. In reviewing the Blue Box Program's 1994 revenue and cost data for over 500 municipalities provided by the Ministry, we noted that 12 municipalities or less than 3% were able to break even financially. About 170 of these municipalities reported costs in excess of revenues of over \$250 per tonne. For about 50 high-cost municipalities, costs in excess of revenues ranged from \$400 to over \$1,000 per tonne.

However, Ministry officials indicated that the financial costs involved should not be the only consideration in determining whether to use the Blue Box Program for protecting the environment. More importantly, the Program would alleviate environmental concerns regarding potential air pollution, ground water contamination, conservation of energy, and the lack of landfill sites and incinerators.

Because of various local differences, it would be difficult to compare the economy or efficiency of municipal Blue Box operations without an in-depth analysis of each of the municipalities. For example, without including the savings in landfill and garbage disposal costs (see discussion in the following section), the costs and benefits of recycling cannot be fully determined. However, our review of the 1994 revenue and cost figures provided by the Ministry indicated that the original objective of having municipalities operate the Blue Box Program on a self-sustaining basis is probably unrealistic without substantial cost reduction for many of the municipalities.

Recommendation

To ensure that the Blue Box Program is sustainable, the Ministry should work with municipalities to reduce the costs of collecting and processing recycled materials.

Ministry Response

The Ministry is working with the municipalities to promote cost-efficient collection and processing procedures to promote effective facility operation and to increase material capture rates. For example, the Ministry has funded pilot projects on variable rate waste collection systems in large municipalities which will increase diversion rates. The Ministry also encourages the municipalities to consider avoided disposal costs when calculating the costs of diversion.

COSTS AND BENEFITS OF RECYCLING

As the Ministry had data only to 1994, we extended our review to include 1995 revenue and cost data from five larger municipalities (A to E in the following chart) in five different regions. Although prices in 1995 were at a record high for most recycled materials and economies of

scale were possible, most of these large municipalities were still not able to break even, as illustrated in the following chart.

Recycling Costs and Revenues in Selected Large Municipalities



* Contractor was paid for collection and retained proceeds of recycling.

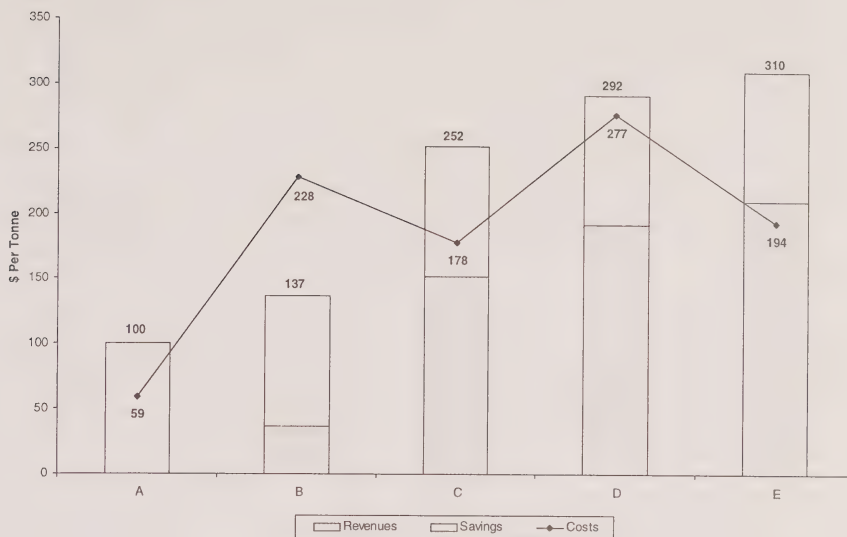
Source: Various municipalities

According to the chart, the Blue Box Program appears to be quite costly. However, our analysis indicated that it would have been even more costly for most of these municipalities if they did not have the Program because they would have:

- still incurred the costs of disposing of the recyclable materials through landfill, which in 1994 averaged about \$100 per tonne; and
- received no revenue to offset the disposal costs of the recyclable materials.

As the following chart illustrates, by including the \$100 per tonne disposal cost savings with revenues received from the recycled materials, these municipalities would see their Blue Box Program become cost effective, even without considering the benefits to the environment.

Recycling Costs, Revenues and Potential Savings in Selected Large Municipalities



Source: Various municipalities

More importantly, Ministry and municipal officials informed us that most municipalities did not take the costs of landfill and garbage disposal into consideration when expressing their concerns about the high cost of recycling. Even if they did, they were mainly using only the current operating costs of landfill in their decision making rather than the full costs of using landfill sites, as discussed in the next paragraph.

In order to determine the costs and benefits of having the Blue Box Program, the municipalities should consider the full costing of alternatives such as landfill or incineration (which usually costs more because of more stringent environmental requirements). In the case of landfill, current operating costs while important are only a small part of the total costs. Future costs such as closure costs, post-closure costs, potential environmental costs from gas pollution and ground water contamination, contingent liabilities for legal costs, as well as costs for locating and establishing replacement landfill sites, are also very significant and relevant for their decision.

Recommendation

The Ministry should work with municipalities to adopt the use of full costing for assessing the most cost-effective method for the disposal of waste in their communities.

Ministry Response

The Ministry agrees with the importance of the full costing of waste activities. The Ministry has encouraged municipalities, and will continue to work with them, to adopt the use of full cost accounting for assessing the costs of disposal of waste.

COMPLIANCE WITH LEGISLATION

To encourage reuse, Regulation 340 of the *Environmental Protection Act* requires a minimum of 30% of soft drinks to be sold in refillable containers. Our audit revealed that the Ministry had not enforced this legislative requirement. Currently, less than 2% of soft drinks are sold in refillable containers.

BACKGROUND

During the 1980s, out of concerns for the protection of the environment, most industrialized nations adopted legislative measures to curb the increasing use of non-refillable bottles by:

- banning their use;
- levying environmental taxes; or
- requiring a mandatory deposit system for refillable bottles.

A mandatory deposit system became the law for most major American states and Canadian provinces. In step with the environmental legislative measures taken by these other jurisdictions, Ontario was considering the introduction of similar legislation. In response to the anticipated legislation, the soft drink industry maintained that a deposit system would be too expensive for consumers.

As the province was initiating its Blue Box Program, the industry offered to share part of the capital start-up costs by contributing \$20 million. The province accepted the industry offer and passed legislation in 1985, requiring 40% of soft drink sales to be in refillable containers. The 40% quota is to be reduced to 30% when prescribed recycling targets are met. In addition, the industry committed itself to maintaining the refillable glass bottle as a viable option for the consumer by:

- pricing refillables at 30% lower than non-refillables to provide an incentive to consumers;
- giving equal advertising prominence to both refillables and non-refillables;
- making refillables available at 98% of retail outlets; and
- promoting the environmental benefits of refillables through advertising.

EFFECTS OF THE LEGISLATION

Since the legislation was enacted, sales in refillable bottles have dropped to less than 2% of soft drinks sold. Consequently, municipalities were receiving more and more plastic soft drink bottles and were concerned about high costs of up to \$1,800 per tonne for recycling. While revenue from these plastic bottles over the last five years averaged about \$240 per tonne, it

was never enough to cover their recycling costs. At the time of our audit, the revenue for recycled plastic bottle material had declined to about \$66 per tonne.

While plastic containers account for less than 2% of recycled materials by weight, they represent about 20% of municipal recycling costs because of the volume they occupy. Currently, about half of the plastic containers are used for soft drink bottles. Municipalities were concerned that the soft drink industry has been able to reduce the amount of materials used through better technology. As the recycled materials are being sold by weight, the municipalities estimated that material reduction by the industry has reduced their revenue correspondingly.

Municipalities have maintained that the costs of disposing of non-refillable soft drink bottles are being unfairly shifted from the direct users, that is, the soft drink industry and consumers, to the municipalities and taxpayers. According to the municipalities, this is a violation of the fundamental user-pay principle of environmental conservation.

Our discussions with representatives of the soft drink industry indicated that the industry was aware of the concerns of the municipalities. However, the industry maintained that alternatives, such as a deposit system, would lead to a high-cost inefficient system paralleling the Blue Box Program. The industry was willing to work with the province and the municipalities again to determine how to pay its fair share and not have taxpayers subsidizing the industry.

Ministry officials indicated that the legislation was difficult to enforce as it involved consumer preference in the marketplace. Since 1995 the Ministry has been reviewing the legislation with the intention of proposing legislative changes regarding refillable soft drink containers.

To date, the review of the legislation has not been completed and there has been little progress in dealing with the industry on this issue.

Recommendation

The Ministry should expedite its review of the legislation regarding refillable soft drink containers and at the same time work with the industry to develop a practical solution to address the concerns of the municipalities.

Ministry Response

The Ministry has undertaken a review of the waste regulations and will continue to work with the municipalities and industry on solutions to this issue.

ENVIRONMENTAL ASSESSMENT

The Conservation and Prevention Division administers the *Environmental Assessment Act*, the purpose of which is to provide for the protection, conservation and prudent management of the environment. To achieve this, the Act requires environmental problems or opportunities to be considered and their effects planned for before development or building takes place.

The Act requires the consideration of a broad range of environmental effects (including biophysical, social, cultural, technical and economic) in the planning and development of public projects, such as roads, sewage treatment plants, hydro corridors and landfill sites. The envi-

ronmental assessment process also considers community values, stakeholder knowledge and public opinion before projects are approved.

REVIEW AND DECISION PROCESS

Ministry staff review each environmental assessment submission and notify the public of the submission. After receiving comments from the public, the Minister decides whether a hearing by the Environmental Assessment Board (the Board) is required. The process has been criticized by the proponents of projects as being untimely, ineffective and too costly.

Our examination of the last 30 submissions approved indicated that on average the Division reviewed approximately ten per year. On average the process took 30 months from the submission of the project to approval by the Minister. In one case, the approval took over eight years.

Our sample of approvals included both those which required Board hearings and those which did not. When submissions did not require Board hearings, the average time for approval was about 26 months. However, the Ministry's Practices and Procedures Manual suggested 12 months for processing and approving such submissions.

Ministry officials indicated that an amendment to the Act, effective January 1, 1997, was meant to address the concerns relating to the environmental assessment process as follows.

- The amendment requires proponents of projects to indicate specific terms of reference at the beginning of the environmental assessment process.
- Once the terms of reference are approved by the Minister they become binding on the proponents, the Ministry and the Board, and no additional issues can be introduced. A mediation process and strict timeframes are to be imposed for all key steps throughout the environmental assessment process, thus ensuring that issues are identified and resolved on a timely basis.

However, the amendment was criticized by environmental groups. These critics indicated that the amendment requires proponents to consult such persons as may be interested when they are preparing proposed terms of reference for an environmental assessment. However, what constitutes "consultation" and "interested person" is not clearly defined. Thus, there is no assurance that all interested persons will be consulted. The proponents of a major project have considerable time and resources to prepare the terms of reference. Conversely, outside stakeholders may not have sufficient time to come forward with their concerns. Consequently, significant issues of a complex nature may never be addressed.

According to the Ministry, the amended legislation empowers the Ministry to issue a deficiency statement when an environmental assessment submission is incomplete or inadequately prepared. If the deficiency is not addressed within seven days, the Minister may reject the submission.

As the legislation has just been amended, it is too early for us to assess its impact on the environmental assessment process.

MEASURING AND REPORTING ON THE EFFECTIVENESS OF ENVIRONMENTAL ASSESSMENT

As previously indicated, the stated objective of the *Environmental Assessment Act* is to provide for the protection, conservation and prudent management of the environment. However, there are no indicators in place for measuring and reporting on the effectiveness of the Ministry in achieving this objective.

The environmental assessment process often imposed terms and conditions on proposed projects. Essentially, the process is a prediction of environmental impacts, and terms and conditions are designed to minimize damage to the environment. Terms and conditions sometimes include requiring proponents to report to other ministries or outside agencies that certain approval conditions have been met. However, there was a concern that the Ministry had no consistent process in place to regularly monitor compliance with all the terms and conditions, including the reporting requirement.

Establishing a mechanism for monitoring compliance with the terms and conditions and the effectiveness of the process would assist the Ministry in achieving a more effective assessment process.

Recommendation

For the environmental assessment process to be more effective, the Ministry should establish indicators to measure and report on the effectiveness of the process and monitor compliance with the terms and conditions of approved projects.

Ministry Response

On January 1, 1997, Bill 76 was implemented to increase the effectiveness of the Environmental Assessment program. In addition, the Environmental Assessment Branch was reorganized to include a Continuous Improvement Section whose primary function is to establish performance measurement systems that will monitor and evaluate the effectiveness and efficiency of the Environmental Assessment program and monitor Bill 76 improvements.

The approach includes allocating resources to develop a comprehensive and systematic project management and auditing system. Indicators will be established to measure success in addressing time, cost and certainty, and in providing environmental protection.

Reporting requirements to the respective ministries and agencies are regularly included in a project's terms and conditions of approval. These have included the requirement to submit annual progress reports, or report on the results of a monitoring program for review by the government agency to ensure compliance. These requirements will be built into the Branch's new performance measurement system.

FUNDING FOR WATER AND SEWAGE PROJECTS

Under the *Ontario Water Resources Act* and the *Environmental Protection Act*, the Ministry of the Environment and Energy is responsible for ensuring that drinking water and sewage effluent processed by treatment plants meet established health and environmental guidelines. Municipalities have received varying amounts of provincial funding for their water and sewage capital projects.

Since April 1, 1994 water and sewage projects have been funded under a new grant program called the Municipal Assistance Program (MAP). By March 31, 1997 MAP had committed \$400 million to assist municipalities with 229 construction projects with total costs of over \$800 million. At the time of our audit in early 1997, about \$300 million of MAP funding had been disbursed to the municipalities.

Grants are based on a number of weighted factors including a community's population, with funding up to 70% of gross costs for communities with less than 1,000 people. All municipalities are eligible for additional assistance of up to 15% of gross costs depending on the number of provincial priorities being met. With additional assistance from the Ministry of Northern Development and Mines, some northern communities can obtain provincial funding up to a maximum of 92.5% of total capital costs.

PROJECT APPROVAL

To be considered for MAP funding, a proposed project has to address one or more of the following provincial priorities: Environment / Health; Economic Renewal / Regional Development; Growth Management/ Intensification; and Water Efficiency / System Optimization. Ministry staff score and rank project applications based on how well the municipalities address the various elements of the provincial priorities. Depending on funding availability, a cutoff score is established. Projects with scores above the cutoff are approved for funding.

DUE REGARD FOR ECONOMY

Predecessor grant programs aimed to alleviate significant health, environmental or growth problems related to water or sewage services. MAP introduced an additional objective of promoting water conservation as well as regular maintenance and the efficient use of existing water and sewage facilities.

In our 1993/94 audit of the previous grant program, we reviewed a sample of water and sewage projects which had received funding for expanding the existing capacity. Our review indicated that if water conservation measures had been taken, the need for many of the projects could have been eliminated or deferred for an extended period of time. For example, by repairing damaged water mains, installing water meters and charging customers for water based on volume used, two municipalities were able to lower their peak water demand by approximately 50%. In addition, the need for \$50 million in expansion capital projects for the two municipalities was deferred for up to 20 years.

In 1993/94 ministry officials indicated that there was little incentive for some of the other municipalities to implement water conservation measures as they were eligible for larger grants for expansion than for rehabilitation projects. They also mentioned that many municipalities

should have undertaken water conservation and system optimization measures instead of applying for expansion grants when their plants were at capacity. Approval would most likely be given for the expansion, as holding up an expansion project where a plant was close to capacity would mean taking on significant health/environmental risks.

At the time of our audit in 1993/94, the Ministry was in the process of evaluating new project applications under MAP. In light of the significant cost savings potential, we recommended that the Ministry tighten the funding guidelines to ensure that municipalities not only review water conservation and system optimization measures, but also implement any applicable cost-effective measures before expansion projects can be approved for provincial funding.

The Ministry responded by stating that it "has undertaken a pilot project to review the merits of undertaking water conservation programs before expanding an existing sewage treatment plant. It is expected that the pilot results can be used to improve funding formula criteria to promote water conservation over the next two years of program funding." On April 18, 1995 the Ministry forwarded a progress report to the Legislative Assembly's Public Accounts Committee indicating that the "pilot activities have now shown that demand management measures, like those listed by the auditor, are often cost effective" and that "system optimization and water conservation are now important criteria for grant eligibility."

However, at the time of our current audit there was still no requirement for applicable water conservation and system optimization measures to be implemented before expansion projects could be approved for provincial funding. In almost half of the expansion project files that we examined, water conservation / system optimization studies were either not completed or recommendations for such measures were not implemented.

Recommendation

To ensure due regard for economy, the Ministry should require municipalities to not only review water conservation and system optimization measures, but also implement any applicable cost-effective measures before expansion projects are eligible for provincial funding.

Ministry Response

The Ministry agrees with this recommendation. The recently announced Environmental Infrastructure Program provides assistance to municipalities for water and sewage projects. In accordance with this program, the municipalities will be required to identify cost-effective strategies to meet their needs.

VERIFICATION OF KEY INFORMATION

We reviewed MAP application files and noted that Ministry staff had not verified information provided by municipalities that could have a major impact on eligibility and the amount of funding for water and sewage projects.

Our review indicated that many applications lacked supporting documentation. This was of particular significance in cases where the municipalities were eligible to receive an increased grant rate if certain requirements were met. For example, the section of the application that dealt with economic renewal explicitly requested supporting documentation for the information provided. However, for 37% of the projects that received the additional 5% assistance for economic renewal, there was no supporting documentation on file. In some cases the overall scores, excluding the scores for the economic section, would not have been sufficient for the municipalities to receive provincial funding.

Recommendation

The Ministry should ensure that appropriate documentation is received to substantiate critical information on the application that may have a direct impact in determining eligibility and the amount of provincial funding for water and sewage projects.

Ministry Response

The Ministry will provide the municipalities with instructions regarding the appropriate documentation which is required for the Ministry to determine funding eligibility and funding levels.

MONITORING GRANT PAYMENTS

The Ministry provides funding advances to municipalities based on the previous quarterly expenditures claimed and forecasted expenditures for the current quarter. A 10% holdback is imposed on projects until a final audit on the completed project is performed by an evaluation engineer of the Ministry to determine the eligibility of expenditures claimed.

Our review of relevant work performed by the Ministry's Management Audit Branch indicated that the Ministry did not monitor grant payments on a timely basis to ensure that funds were spent only for intended purposes. Specifically, management audit staff of the Ministry observed the following.

- Projected cash flow requirements submitted by municipalities were often overstated, resulting in overpayments in excess of the 10% holdback.
- Advances totalling \$14 million for about 140 projects had been outstanding for two or more years without any claims for actual expenditures being submitted. At the completion of our audit, the Ministry had not determined the status of the projects or of the advances outstanding.
- Final audits by the evaluation engineers indicated that over 84% of the projects audited had some ineligible costs. In 1994 and 1995 final audits identified ineligible actual expenditures claimed totalling over \$58 million in gross costs, representing almost \$19 million in provincial grants. Even when 10% holdbacks were taken into consideration, there were still net overpayments of approximately \$3.6 million relating to 70 projects. At the completion of our audit, the Ministry had recovered about \$2.3 million by offsetting the overpayments

against other grants due to the municipalities and had invoiced the municipalities for the remainder.

Ministry staff indicated that many projects did not file final claims on completion of their projects. Even where final claims were filed, it often took over six months before the evaluation engineers had time to determine whether the actual expenditures claimed were eligible. The significant delay in identifying ineligible costs resulted in disputes and the inability of some municipalities to repay the grant overpayments.

Recommendation

To ensure the timely recovery of grant overpayments, the Ministry should:

- better assess municipalities' cash flow requirements;
- more closely monitor when the claims for actual expenditures are being submitted;
- actively follow up long-outstanding advances; and
- expeditiously determine the eligibility of claimed expenditures.

Ministry Response

The Ministry agrees with this recommendation, noting that the recommendation should improve program delivery.

The Ministry currently assesses the municipalities' cash flow requirements by using a system which updates actual and estimated project expenditures that are tied to requests for grant advances submitted by the municipalities. Future funding programs will require that the municipalities submit specific cash flow projections in writing on a quarterly basis, and legal agreements will stipulate this requirement.

The payment procedure includes the provision for withholding 10% of the approved grant until the final cost audit has been performed. The purpose of this holdback is to address the issue of overpayment.

In 1996 the Ministry contacted municipal clients regarding outstanding advances. The municipalities submitted final claims and provided the documentation necessary for the Ministry to perform final audits and determine recoveries. The Ministry will continue this practice on a regular basis. In addition, the Ministry will place a "payable by" date on the recovery letters to the municipalities.

The Ministry has taken steps to address the existing volume of final cost audits through various measures, including: the reassignment of staff, the development of approved workplans and monitoring performance on a monthly basis.

The Ministry will assess the impact of these changes and review the program to determine if further improvements can be made to ensure a more timely recovery of grant overpayments.

Employer Health Tax

The *Employer Health Tax Act* requires all employers who have a permanent establishment in Ontario to remit employer health tax (EHT) on total Ontario remuneration paid to employees. The tax is payable in monthly or quarterly instalments or on an annual basis depending on the total annual amount of tax payable. The rates of payment vary from .98% on total remuneration less than \$200,000 up to 1.95% for remuneration in excess of \$400,000. Since January 1, 1993, self-employed individuals resident in Ontario with net self-employment income in excess of \$40,000 have also been required to pay this tax at the same rates as employers. At the beginning of our audit in September 1996, the EHT taxroll consisted of approximately 396,000 private and public sector employers and 54,000 self-employed taxpayers.

The EHT replaced Ontario Health Insurance Plan (OHIP) premiums on January 1, 1990. OHIP premiums had generated about \$1.7 billion in revenue annually compared with the \$2.7 billion generated by EHT during its first full fiscal year. Since that time, EHT revenues have remained relatively stable, with \$2.8 billion collected in the 1996/97 fiscal year of which self-employed individuals paid \$39.5 million.

The Employer Health Tax Branch of the Ministry of Finance has primary responsibility for the Act's administration and enforcement. The Branch operates through a head office and six regional offices. Most of the Branch's 177 staff work in two major areas: audit and taxroll administration. In the 1996/97 fiscal year, the Branch's expenditures were approximately \$11.9 million, of which \$8.5 million, or 71%, related to salaries and benefits.

Remittances and tax returns are processed by the Ministry's Taxation Data Centre. Branch activities are supported by a computer-based system which maintains the EHT database, records remittances, triggers collection activities for delinquent accounts and is a source of information for the selection of tax returns for audit.

The 1996 *Ontario Budget* announced legislative changes to the *Employer Health Tax Act* which will exempt private sector employers with payrolls under \$400,000 and all self-employed individuals from paying EHT. Public sector employers are not affected by the changes. The tax exemption is being introduced over three years starting on January 1, 1997. The 1996 *Ontario Budget* indicated that while EHT revenues will be reduced by about \$290 million, additional revenue of \$260 million will be generated from the new Fair Share Health Care Levy that has been incorporated into the existing surtax on Ontario personal income tax.

OBJECTIVE AND SCOPE

Our audit objective was to assess whether reasonable procedures were in place to ensure that the Ministry collects the proper amount of employer health tax in a timely manner and in accordance with statutory requirements.

Our audit focused on the two main functional areas within the Employer Health Tax Branch, specifically, audit and taxroll administration. While most of our audit work was conducted at three of the larger regional offices, questionnaires were sent to, and discussions held with, all six regional offices. We were able to reduce the scope of our work at the Taxation Data Centre due to the relevant work done by the Ministry's Audit Services Branch which we reviewed and were able to rely on.

3.08

OVERALL AUDIT OBSERVATIONS

The Ministry considers the audit of tax returns to be the greatest stimulus to encouraging voluntary compliance and minimizing the difference between the amount of EHT collected and the amount that could be collected. Based on the current number of field audit staff and the number of field audits being conducted, we concluded that overall audit coverage was adequate. However, the effectiveness of field audit could be improved by using better information and a more formalized risk-based approach in order to select audit candidates with a high potential for reassessment.

We recommended, and the Ministry is now in the process of starting up, a desk audit function. As well as monitoring the implementation of the new exemption limits, desk audits could also follow up those audit issues which can be dealt with more cost effectively through written correspondence or by telephone contact with the taxpayer. The additional audit revenues generated, together with the greater voluntary compliance resulting from this increased audit presence, will further reduce the difference between the amount of EHT collected and the amount that should be collected.

We concluded that Ministry procedures were adequate to ensure EHT payments were being deposited promptly and credited to the appropriate taxpayers' accounts, as well as ensuring that the approximately 396,000 EHT returns received annually from employers were being processed accurately.

DETAILED AUDIT OBSERVATIONS

AUDIT ACTIVITIES

Audits have a two-fold effect on taxpayers. The immediate effect is that taxpayers have to pay additional taxes if an audit results in the issuance of a reassessment. A second and equally important effect is an increased awareness in the taxpayer community that audits are being

conducted. Consequently, it is important that an adequate level of audit coverage be maintained to ensure that awareness.

Reassessments arising from audits must be issued within four years from the date of the original assessment; otherwise, the return becomes statute barred, which means that it cannot be reassessed unless fraud is suspected.

AUDIT COVERAGE

In late 1993 an EHT field audit function was introduced, and field auditors were hired to conduct audits of taxpayers' records at the taxpayers' places of business. The initial focus was on auditing the 35,000 larger employers with remuneration greater than \$400,000. In 1994 the *Ontario Budget* introduced an EHT relief initiative which contributed to additional audit staff being hired to increase audit coverage of large, complex employers with total revenues greater than \$50 million and remuneration exceeding \$12.8 million. Branch policy stipulates that these large employers are to be audited at least once within each four-year period. The Branch does not routinely audit the 361,000 smaller employers with remuneration of less than \$400,000, and which, in total, contribute about \$150 million, or 5%, of total EHT. In the 1995/96 fiscal year, field audits generated net reassessment revenue of approximately \$16 million.

Of the 35,000 employers with remuneration greater than \$400,000, approximately 2,700 or 8% were audited in the 1995/96 fiscal year. Given current staffing levels and the number of employers currently being audited, the Branch appears to be able to comply with its policy of auditing all large employers with annual remuneration exceeding \$12.8 million within the four-year period prior to their becoming statute barred. Based on these levels of audit coverage and in comparison with the audit coverage levels in the other taxation programs in the Ministry, we believe these are adequate levels of audit coverage.

AUDIT SELECTION

The success of the audit function in recovering unpaid tax is largely dependent on the auditor's ability to select for audit those taxpayers with a higher risk of having underreported their EHT payable. Consequently, a risk-based selection approach which takes into consideration all pertinent information available from the computer-based Integrated Tax Administration System (ITAS) needs to be used. Such information would include the length of time since the last audit, the amount of any previous audit reassessments, large refunds paid, unusual fluctuations in remuneration and the type of business in order to highlight higher risk taxpayers.

We noted that the various regional offices were not consistently using a formal risk-based approach to select taxpayers for field audit as the points below demonstrate.

- Regional office responses to our questionnaire indicated a wide variation in the frequency with which relevant information available from ITAS was taken into consideration in selecting taxpayers for audit.
- In 1995 the Branch processed approximately 31,000 refunds totalling \$60 million, with \$27 million representing 489 refunds greater than \$20,000 each. However, the Branch does not have a system in place to automatically highlight for audit consideration those taxpayers who have received large refunds. Regional office responses to our questionnaire indicated that refunds are generally taken into consideration in selecting audit candidates in only three of the six offices.

We were also advised by one of the two other provinces collecting a health-related tax that large refunds are considered a key criterion in selecting taxpayers for audit.

- The percentage of audits resulting in reassessments during the 1995/96 fiscal year ranged from 46% to 79% among the six regional offices. We noted that the office with the 46% rate selected many audits on a random basis while the office with a 79% rate selected its audits using a more risk-based approach.
- In one office, the variance in recovery rates per auditor-hour ranged from an annual average of \$22 to \$555 per hour. The auditor with the \$22 average recovery rate was selecting taxpayers randomly from a list sorted by postal code in order of declining remuneration, while the auditor with the recovery rate of \$555 used a risk-based approach which successfully took into consideration a number of different factors. This variance in recovery rates is also indicative of situations that can arise where audit managers delegate the responsibility for audit selection solely to their auditors.

According to the Branch's *Audit Manual*, the reason for selecting a taxpayer for audit should be documented. We reviewed a sample of audits completed during the 1995/96 and 1996/97 fiscal years at three regional offices and noted that only one of the three was consistently documenting these reasons.

Recommendation

In order to maximize the amount of unpaid taxes detected through field audits, the Ministry should consistently apply a risk-based approach that takes into account all pertinent information in selecting taxpayers for audit. Regional audit managers should monitor the selection process and ensure that selection rationales are appropriately documented.

Ministry Response

We agree with the recommendation. Improvements in file selection for audit are part of the Ministry's system development plans targeted for completion by the end of the 1997/98 fiscal year. Analysis of refunds, return amendments and tax relief claims will be one component.

DESK AUDITS

Tax returns can also be audited through a desk audit process. A desk audit is carried out by staff who follow up on inconsistencies or anomalies in the taxpayer's return through written correspondence or telephone contact with the taxpayer. A desk audit generally takes less time than a field audit and, in certain circumstances, is a much more efficient way of auditing taxpayer returns.

At the time of our audit, the Employer Health Tax Branch did not have a desk audit function in place. Most other major tax branches within the Ministry use desk auditors. Additionally, one of the two other provinces that collects a health-related tax advised us it uses desk auditors to follow up on potential issues with taxpayers.

Examples of situations where we believe follow-up by desk auditors would result in good payback for the Ministry are listed below:

- taxpayers who report monthly remuneration throughout the year which, in total, is either significantly greater or less than the total annual remuneration they report on their annual returns;
- taxpayers who report on their T4 Summaries to Revenue Canada significantly higher amounts of remuneration paid than they report on their EHT annual returns;

We noted that in September 1996 the Branch received a tape from Revenue Canada of employer T4 Summary remuneration amounts. However, by the end of our audit fieldwork, this information had not yet been compared to the remuneration these employers were reporting on their EHT annual returns.

- self-employed taxpayers who have declared self-employment income greater than \$40,000 to Revenue Canada but who have not registered with the Ministry;
- self-employed taxpayers who report higher amounts of self-employment income on their federal personal income tax returns than on their annual EHT returns; and
- self-employed taxpayers who have been reassessed by Revenue Canada for underreporting self-employment income.

Toward the end of our audit fieldwork, we were advised that the Ministry had approved the establishment of an EHT desk audit function to monitor the implementation of the new tax exemption beginning in 1997 as announced in the *1996 Ontario Budget*.

Recommendation

To better identify and act on underreported taxes, the Ministry should implement the planned desk audit function and ensure that inconsistencies and anomalies in employer health tax returns that are amenable to desk audit methods are investigated.

Ministry Response

We agree with the recommendation and, as noted in the report, are currently in the process of establishing a desk audit function.

TAXROLL ADMINISTRATION - SELF-EMPLOYED INDIVIDUALS

When EHT was first introduced in 1990, it was payable by employers only. The tax was extended to self-employed individuals effective January 1, 1993. The Branch relies on individuals who have self-employment income exceeding \$40,000 to register with it voluntarily. We noted that the Branch has no procedures in place to identify self-employed taxpayers who should be registered with the Branch but are not.

We were informed that another branch within the Ministry periodically receives computer-based information which provides data on incomes of self-employed individuals. We suggested the Ministry utilize this information to compare individuals with self-employed income greater than \$40,000 against the Branch's EHT database. The Ministry completed this matching for the 1994 taxation year. The initial results indicated that, potentially, thousands of unregistered self-employed EHT taxpayers are estimated to owe up to \$7 million in unassessed EHT for that taxation year.

We acknowledge that, as a result of the *1996 Ontario Budget*, the self-employed will be fully exempt from EHT in 1999. However, the Ministry can reassess a taxpayer up to four years after a return has been filed, and it plans to continue auditing self-employed taxpayers until 2003. Accordingly, we believe that this matching will continue to be a cost-effective strategy up to the 1998 taxation year.

Recommendation

To detect unregistered self-employed taxpayers who may be liable for employer health tax and those who have underreported their income, the Ministry should compare the information contained in its employer health tax database against other relevant and available information.

Ministry Response

As stated in the report, the Branch has completed the initial match of the 1994 taxation year and is in the process of contacting taxpayers. It is the Branch's intention to continue with this exercise for other taxation years.

WORKERS' COMPENSATION BOARD/ EMPLOYER HEALTH TAX JOINT REPORT

In late 1995 senior officials from the Ministry of Finance, Workers' Compensation Board (WCB) and the Ministry of Labour formed a steering committee to oversee a joint study carried out by representatives from the Employer Health Tax Branch and the WCB. The goal of the study was to review EHT and WCB revenue-related functions to identify opportunities to achieve cost savings, increase revenues and provide a more efficient level of service. In August 1996 a report was issued to the deputy ministers of Finance and Labour as well as the Chair of the WCB. The report identified 28 opportunities to reduce costs, increase revenue and improve operational efficiencies.

Two significant areas where opportunities for improvements exist are information sharing and the audit process. The report indicated that benefits from the exchange of information could be achieved at moderate cost and with minimal risk. In addition, both organizations could benefit from reduced costs and increased revenues resulting from the exchange of audit results, the development of a combined audit plan and the performance of joint audits.

We were advised that, as of February 1997, the Ministry and WCB were considering the implementation of pilot studies in several areas. This is a noteworthy joint initiative.

RETURNS, PAYMENT PROCESSING AND RECONCILIATION PROCEDURES

During the 1995/96 fiscal year, the Taxation Data Centre processed approximately 396,000 employer returns and 54,000 self-employed returns and about \$2.6 billion in payments. Sixty percent of the tax collected was paid at designated financial institutions and 40% was submitted by mail.

Payments contain a cheque and a remittance form completed by the taxpayer. Payments made at financial institutions are deposited to the Ministry's bank account and the remittance forms and a summary of the deposits are forwarded to the Centre. The Centre deposits cheques from mailed-in payments in the Ministry's bank account. Taxpayer accounts are updated to reflect payments from the remittance forms. Each day the total deposits are reconciled to the total amount of payments input from the remittance forms.

A list of all daily deposits is electronically transmitted to Central Accounts (Public Accounts). In addition a listing of all daily deposits is provided to the Corporate Planning and Financial Branch for updating the ministry general ledger. The Corporate Planning and Financial Branch reconciles the amount recorded in the general ledger with the amount recorded in Central Accounts. Also, the Employer Health Tax Branch reconciles the total amounts posted to the taxpayers' accounts with the total amount recorded in the general ledger.

The Ministry's Audit Services Branch audits the Centre's operations annually to assess the adequacy of its financial controls and to verify the accuracy of taxation revenue reported by the Ministry. In its previous four audit reports, the Audit Services Branch concluded that revenue processing was accurate and management practices and the system of financial controls were effective.

Our review of the Branch's work supported these conclusions. In addition, we selected a sample of tax payments processed since August 1995 and noted that they were generally deposited promptly and accurately recorded in the taxpayers' accounts. We also selected a sample of EHT returns filed in March 1996 and verified that they had been accurately processed.

The Centre is required to reconcile the total payments recorded in the taxpayers' accounts with the total deposits made to the Ministry's bank account on a monthly basis. Also, all refunds paid out are reconciled with the refunds recorded as having been paid. With one exception, the monthly reconciliations were being completed on a timely basis. The one reconciliation that was not up to date at the time we reviewed this area was satisfactorily completed at the conclusion of our audit fieldwork.

OTHER MATTERS

IMPACT OF LEGISLATIVE CHANGES

Currently there are approximately 396,000 public and private sector registered employers. Of these, 82% are small employers who remit EHT annually and 9% are medium-sized employers

who remit quarterly. The remaining 9% are the largest employers and must make monthly payments. In addition, there are approximately 54,000 self-employed EHT taxpayers.

Legislative changes to the *Employer Health Tax Act* were announced in the 1996 *Ontario Budget*. Specifically, by January 1, 1999, private sector employers with annual payrolls under \$400,000 will be exempt from tax, and individuals will no longer be required to pay EHT on self-employment income. These exemptions are being phased in over three years, with all private sector annual filers being exempt as of January 1, 1997, and quarterly filers being fully exempt by 1999, by which time the Ministry estimates that 88% or 270,000 of Ontario's private sector employers will no longer pay EHT. All public sector employers are excluded from the exemption.

The Branch employs approximately 177 staff, with 56 of them working in the audit area and 88 assigned to taxroll administration. In May 1996 the Branch prepared a report that discussed the impact of the expected legislative changes on branch workloads. The report concluded that "the impact on staffing levels (if any) will be minimal" based on the following observations.

- There will be minimal impact on audit staff as audits focus on the larger accounts (annual remuneration over \$400,000) and these larger taxpayers are unaffected by the exemptions.
- Branch resources are devoted primarily to monthly filers as they involve the most frequent contact with the Ministry.
- Smaller taxpayers who file annually, although comprising the bulk of the taxroll, require fewer branch resources because they do not make instalment payments and, therefore, rarely contact the Branch during the year.

We reviewed the report and evaluated the basis for its conclusion that the impact of the legislative changes on the Branch would be minimal and had the following observations.

- Since the Branch focuses audit resources on large monthly filers, we agree there will be no significant impact on the level of audit resources required.
- When taxroll administration managers at the six regional offices were asked what they thought the impact of the changes would be, four managers indicated minimal impact, one manager stated he had not yet assessed the situation and one manager replied that the impact on the taxroll area would be significant.
- The Branch had no documented analysis of the work carried out by the taxroll administrators to determine where they spent their time. According to the taxroll managers, approximately 35% of staff time is spent answering telephone queries from the public and another 40% is spent following up on correspondence from taxpayers.

Accordingly, for 11 days selected at random throughout the year for four regional offices, we analyzed all documents processed by taxroll administrators to determine which employer category they fell into. Of the documents handled, 63% represented annual filers while only 20% represented monthly filers or public sector employees. The balance represented quarterly and self-employed taxpayers.

We also requested that all six regions record the EHT account numbers for all telephone inquiries answered on 15 days we randomly selected between October 1996 and February 1997. Of those inquiries, we noted 56% represented annual filers while 29% represented monthly or public sector employers. The balance represented quarterly and self-employed taxpayers.

Our analysis indicated that the annual filers who will be off the taxroll by 1997 were responsible for well over half the written and telephone inquiries handled by the regional taxroll administrators. This differs significantly from the Branch's conclusion that annual filers use relatively few resources. Accordingly, even after taking into account the resource requirements of the new desk audit function, we believe the impact of the new legislation on the taxroll administration area warrants further study by the Ministry.

Recommendation

The Ministry should closely monitor the potential effects on the workload in the tax administration area of the impending changes to the employer health tax taxroll due to recent changes to the *Employer Health Tax Act*.

Ministry Response

The Ministry agrees that the impact of recent revisions to the Employer Health Tax Act needs to be closely monitored and, as in the past, if the Ministry's analysis indicates that workloads have changed, resources will be reallocated. One example of this was the announcement in the 1996 budget speech that 50 person-years would be reassigned to the Retail Sales Tax Branch's field audit from other programs within the Ministry. Another recent example of this is the planned transfer of 14 staff positions from tax compliance into desk audit in the Employer Health Tax Branch.

REPORTING OF RESULTS

One of the recommendations of the Ontario Financial Review Commission was for each ministry to prepare a three-year business plan and include what it believes to be suitable performance measures and targets. The government supported this recommendation and required ministries to prepare such plans in 1996. The Ministry of Finance finalized its first Business Plan in May 1996.

In June 1997 the Ministry completed its Business Plan for the 1997/98 fiscal year. The Ministry's stated goal for the tax administration area was "to maintain the integrity of the province's self-assessing tax system by encouraging compliance and discouraging non-compliance."

The Ministry is in the process of developing quantifiable performance measures to allow it to measure and report on this goal. One indicator that has been developed is to have an efficient tax system with reduced public administration and taxpayer compliance costs. With regard to measuring and reporting on this indicator, the Ministry needs to consider the work done in 1994 by the United States General Accounting Office when that Office was determining whether a reliable estimate of the cost to business taxpayers of complying with the tax code was possible. Their work indicated that "to separate tax compliance costs from other costs of doing business would be burdensome and of questionable usefulness to [businesses]."

The reporting of results against stated goals is as important at the branch or program level as it is at the ministry level. The Employer Health Tax Branch's plan has four stated goals:

- to encourage voluntary compliance;
- to provide fair and equitable treatment of taxpayers while ensuring that provincial tax revenues are maintained at optimal levels;
- to identify and resolve issues of non-compliance; and
- to support the review and design of tax policy which will promote the administration of a fair and equitable tax system.

Branch management information reports provide statistics on a number of operational indicators such as dollar amounts of reassessments resulting from audits, number of audits completed, total number of documents administered and the total number of inquiries serviced.

However, these indicators provide only minimal information on the impact the Branch's enforcement and service activities are having on improving voluntary compliance and optimizing tax revenues. We believe that there are other indicators which would, over time, provide information on the relative impact the Branch's activities were having on accomplishing these objectives such as:

- the number of returns not filed by registered EHT taxpayers each year;
- the number of taxpayers who had two consecutive audits resulting in reassessments; and
- the amount of EHT recovered per audit hour.

Recommendation

The Employer Health Tax Branch should develop performance measures which, over time, would provide an indication of the impact its activities are having on encouraging voluntary compliance and optimizing tax revenues.

Ministry Response

The Ministry is in the process of creating a data warehouse that will contain information from the major systems in the Tax Division and external feeds from Revenue Canada. This facility will then allow any Tax Division branch to better monitor performance.

Mental Health Program - Community Based Services Activity

The Community Based Services Activity is administered by the Mental Health Programs and Services Group. The goal of the Activity is to develop a system that will support people with mental illness in living fulfilling lives in the community. The Activity funds Community Mental Health Programs which include community-based mental health services, children's mental health programs, residential Homes for Special Care and the community psychiatric payment program. For the 1996/97 fiscal year, transfer payments to community mental health service providers totalled approximately \$176 million.

In 1993 the government announced a 10-year strategy for reforming the province's mental health system. The Ministry's policy framework for the reform stated: "Its goal is a comprehensive, coordinated, cost-effective system of services that puts people first."

OBJECTIVES AND SCOPE

The objectives of our audit of the Community Based Services Activity were to assess whether the Ministry had adequate procedures in place:

- to measure and report on the effectiveness of the Activity; and
- to ensure compliance with legislation and that policies and procedures for the approval, processing and payment of transfer payments were adequate and were being followed in an economic and efficient manner.

In conducting our audit we reviewed the operations of the Mental Health Programs and Services Group in Toronto, and the related operations of the Fiscal Strategies Branch and the Supply and Financial Services Branch which process payments for the Activity. We also reviewed and, where warranted, relied on relevant work completed by the Ministry's Audit Branch. In addition, we visited several community mental health agencies and Homes for Special Care.

OVERALL AUDIT OBSERVATIONS

Significant improvements are required to adequately monitor, assess and report on the Community Based Service Activity's effectiveness in developing a system that will support people with mental illness in living fulfilling lives in the community. In particular, the Ministry needs:

- to monitor its progress toward achieving the goals and objectives of mental health reform;
- to compare the costs and outcomes of community-based care with the costs and outcomes of institutional care for various levels of services/care;
- to define acceptable levels of care, establish benchmarks and standardized outcome measures for community-based mental health services, and monitor service providers against them;
- to assess the appropriateness of services provided and funding levels;
- to accelerate the development and implementation of an appropriate management information system to collect and aggregate accurate and complete service provider data for funding decisions; and
- to establish procedures to enforce operating guidelines for Homes for Special Care.

In general the Activity had adequate procedures in place to ensure compliance with legislative requirements and to ensure that payments were properly approved, processed and paid.

DETAILED AUDIT OBSERVATIONS

MENTAL HEALTH REFORM

Mental health reform initiatives began in 1988 when the Provincial Community Mental Health Committee released a report which envisioned the development of a community-focused, integrated mental health system. The Committee based its recommendations on the philosophy that a "system which emphasized community-focused mental health care services is the best model for strengthening the role of the individual and maximizing his/her health potential."

The Ministry's 1993 policy framework for a 10-year strategy to reform mental health services across Ontario stated that the first priority of reform was meeting the needs of seriously mentally ill individuals, and that the key services and supports needed were case management, crisis intervention, housing and service recipient initiatives. The framework also established targets for reducing the number of psychiatric hospital beds and shifting funding from institutional care to community care. Targets were subsequently developed for increasing the number of case managers and community housing spaces. These targets were set for the end of the fifth and tenth years. However, we were informed that the Ministry had not compared the costs and outcomes of community-based mental health care with the costs and outcomes of institutional care.

In early 1995, the Ministry released "Mental Health Reform Implementation Guidelines for Housing and Support Services." These guidelines were developed by a working group co-

chaired by the ministries of Health and Municipal Affairs and Housing and were “intended to assist the reform of Ontario’s mental health system by aiding in the provision of housing and support services for consumers of mental health services.” The guidelines provided direction for the planning of housing and support services and helped define the roles and responsibilities of key stakeholders. However, we were informed that there has been no subsequent action taken on how the housing targets established in the 1993 policy framework would be met.

At the time of our audit, the Ministry did not have province-wide data available on the current status of mental health reform or the likelihood of meeting the established mental health reform targets. In addition, no periodic evaluations had been conducted on the Ministry’s progress in meeting these targets. Such evaluations would enable the Ministry to determine whether the targets were still appropriate and/or achievable. However, in December 1996 the Ministry approved \$2.8 million to “undertake rigorous evaluation of community mental health services and supports” in order to monitor the progress of mental health reform. In addition, we were informed that proposals were requested by the Ministry for an analysis of its status in meeting the mental health reform targets on a province-wide basis.

Recommendations

To enable any needed corrective action to be taken on a timely basis, the Ministry should periodically evaluate its progress in meeting the mental health reform targets.

To enable it to better plan the future direction of mental health care, the Ministry should develop and compare the costs and outcomes of community-based care with those for institutional care for various levels of services/ care.

Ministry Response

The Ministry agrees with the recommendations. The Ministry has developed an evaluation process to monitor shifts in fiscal and bed ratios. When implemented, the Ministry’s Mental Health Minimum Data Set will assist in monitoring hospitalization rates. The Ministry is sponsoring a community mental health evaluation initiative which is being carried out by the Mental Health Consortium. This initiative will supervise research projects in priority mental health reform areas. Through information aggregated from operating plans, the Ministry will also be able to monitor mental health reform targets.

The Ministry has followed through on a previous audit recommendation to implement a management information system. Mental Health has hired information systems staff to develop mental health databases that will electronically process financial and statistical data received from mental health providers. The Ministry has started a phased implementation of the Mental Health Minimum Data Set which will allow ministry staff to analyze and compare costs of community care and institutional care. The Ministry has sponsored a number of outcome measure initiatives; however, comparisons of outcomes between community and institutional care still present a challenge. As a result, the Ministry will examine this issue further.

3.09

COMMUNITY INVESTMENT FUND

In October 1994 the Ministry announced the establishment of a Community Investment Fund to provide funding for programs aimed at diverting severely mentally ill individuals from admission to institutions to community-based services as well as supporting individuals discharged from institutions. The Ministry has allocated to the Fund \$20 million in annual funding plus an additional \$3.5 million in one-time funding. Funding of approved projects commenced in the fall of 1996, and actual expenditures for the 1996/97 fiscal year totalled approximately \$1.4 million.

In March 1996 the Ministry developed a monitoring process to determine whether the goals of the Fund were being achieved, whether funded projects were well managed, and whether funding should continue or be adjusted. However, no monitoring had been completed at the time of our audit since funding had just commenced.

COMMUNITY-BASED MENTAL HEALTH SERVICES

The Ministry began funding community-based mental health services in 1976 in response to a growing need for community-based services. According to an overview prepared by the Ministry, these services "are intended to reduce the frequency and duration of admissions to psychiatric facilities, replace inpatient treatment with outpatient services wherever possible, reintegrate discharged patients into the community environment, increase the range of choices of interventions or services available, and reduce the risk of mental disorder in high-risk groups." The services may be delivered by community agencies or sponsored by general hospitals. At the time of our audit there were approximately 350 service providers, with expenditures totalling \$131.2 million for the 1995/96 fiscal year.

Ministry staff monitor community-based mental health services through annual operating plans, quarterly financial statements and year-end settlement forms which include audited financial statements.

OPERATING PLANS

Each service provider is required to submit an annual operating plan to the Ministry and the appropriate District Health Council. The Ministry reviews and approves each operating plan after taking into consideration any comments or recommendations received from the District Health Council.

According to the Ministry's "Guidelines and Process Requirements," annual operating plans should include objectives, numerical targets and outcomes, the target population and a budget request including salary and staffing levels.

We reviewed a sample of 1996/97 operating plans and found that all plans were reviewed by the Ministry and that any budget anomalies were generally identified and followed up prior to approval. However, we also noted that, although information on objectives was included in the operating plans, 67% of the plans did not include required numerical targets and outcome criteria. In addition, providing information about the number of seriously mentally ill clients to be served was optional for the 1996/97 operating plan. We understand that it will be required for future plans.

We noted that, on average, operating plans were submitted four months into the fiscal year and approximately 40% of them had not been approved by six months into the fiscal year.

Recommendation

To facilitate appropriate and timely funding decisions for community-based mental health services, the Ministry should:

- ensure that all information submitted is in accordance with ministry requirements; and
- require operating plans to be submitted, reviewed and approved on a more timely basis.

Ministry Response

The Ministry has streamlined and simplified reporting requirements by refining the operating plan guidelines and process requirements it distributes to mental health provider organizations. The Ministry will ensure that information submitted is in accordance with ministry requirements by doing a more thorough review of operating plans, and following up with community programs that do not report on the necessary requirements.

The Ministry agrees that operating plans should be approved on a more timely basis. The timeframe for the operating plan process depends on the Government's Estimates/Budget process. This has an impact on the timing of the issuance of operating plan guidelines and process requirements. The Mental Health Programs and Services, as part of the new Institutional Health and Community Services Division, will consider integrating the operating plans with a view to making them more timely and effective instruments.

PERFORMANCE MONITORING

Establishing standards for and monitoring the quality of services provided is essential for assessing both the appropriateness of those services and the reasonableness of the underlying costs incurred. In addition, accurate and complete performance data are needed to make informed funding decisions.

We noted that the Ministry did not obtain sufficient data to assess whether agreed-upon services had been provided. Although service providers were required to submit quarterly operating reports to the Ministry, these reports were primarily financial in nature and did not capture data on service levels.

The Ministry has established benchmarks for case management. For example, the elements of intensive case management include caseloads of 15 to 20 service recipients with more than 50% of contacts taking place outside the office. However, benchmarks had not been established for other core services such as crisis support, housing and social rehabilitation.

The Ministry also had not defined acceptable levels of care or implemented a set of standardized outcome measures to evaluate the effectiveness of community-based mental health services. Benchmarks would help the Ministry identify services that are not being provided economically and efficiently. They would also enable the Ministry to compare the relative performance of similar service providers. We were informed that the Ministry is currently evaluating a tool for measuring outcomes.

Performance measures proposed in the Ministry's May 1996 Business Plan included enhanced quality of life for mentally ill individuals and their families. We noted that quality-of-life indicators were not being used by the Ministry to monitor the performance of service providers. However, quality-of-life indicators such as satisfaction with living situations, housing stability and employment activities are used in other jurisdictions. We were informed that such indicators would likely be reviewed for their applicability as part of the mental health reform review. In that regard, we noted that the Ministry's initiatives to monitor the Community Investment Fund included selecting an approved project within each health planning region to pilot a quality-of-life measurement instrument.

We also found that the Ministry did not compare or otherwise analyze the costs of services among similar providers and did not maintain aggregated data on the services available, the number of service recipients or the waiting time to access services. We did note, however, that the Ministry had requested and received information from each District Health Council identifying the community mental health services currently available and needed in each region.

Recommendation

To ensure that agreed upon community-based services are being provided and that funding is reasonable and consistent, the Ministry should:

- **define acceptable levels of care; and**
- **establish performance benchmarks and outcome measures, and monitor programs against them.**

Ministry Response

The Ministry agrees with the recommendation. The Ministry has undertaken the development of benchmarks, targets and outcome measures for mental health services. The efficiency and effectiveness of service delivery is the current focus of further outcome measures that will span both the hospital and community sectors and will include program, client and financial data. Existing targets include provincial bed targets as well as those benchmarks developed for case management and housing.

The Ministry's Community Investment Fund indicators and Minimum Data Set will enhance the monitoring of such indicators as living situation, housing stability and employment activities.

MANAGEMENT INFORMATION SYSTEMS

A May 1996 proposal to acquire new information technology states that in order for the "Mental Health Programs and Services Group to fulfill its role and responsibilities in an efficient and effective manner, the Group needs to update its current information technology." The proposal also stated that staff must have access to relevant information to enable them to perform suitable analyses, generate reports and make informed decisions related to managing and funding the mental health system.

In 1990 and again in 1993, the Ministry's Audit Branch reported that an information system was needed to monitor the operations of community-based mental health services to enable the Ministry to take any corrective action that might be required. In addition, a 1991 consultant's report identified the Community Mental Health Branch's information requirements and suggested automated solutions. (The Branch is now part of the Mental Health Programs and Services Group.) However, we were informed that these solutions were not pursued due to other ministry-wide information technology priorities.

In the spring of 1995, a Management Information Systems Steering Committee was established to direct the development and implementation of a mental health reform information system. The Committee drafted a list of data to be collected from service providers. This list included information that could be used within the mental health system to facilitate comparisons, as well as the regional and provincial aggregation of data. At the time of our audit, this list was being updated based on comments received from service providers.

Communications and reporting between the Ministry and service providers is paper-based. Information received is manually entered by ministry staff. Data entry efficiencies could be gained through the electronic transfer of information.

Recommendation

To facilitate the monitoring of mental health reform and enable management to better evaluate the effectiveness of community-based mental health services, the Ministry should accelerate the development and implementation of an appropriate management information system.

Ministry Response

The Ministry agrees with the recommendation and is currently in the process of developing management information systems that will evaluate the effectiveness of community-based mental health services and institutional-based services. Examples are the Community Mental Health Budget System and the Community Sessional Fees System which will be implemented by the fall of 1997. The Ministry will be pursuing electronic data capture by evaluating community agencies' technology capabilities. Depending upon the results of this evaluation, the Ministry may plan to capture data initially via diskettes and in the longer term via direct electronic transfer.

3.09

ACCOUNTABILITY

The Ministry has recognized the need to strengthen its accountability relationship with community-based mental health service providers and has drafted a new service agreement. This agreement will replace the outdated Memorandums of Understanding currently in place. At the time of our audit, we were advised that the new service agreements were expected to be in place by the end of the 1996/97 fiscal year for all providers.

The new agreements, unlike the Memorandums of Understanding, require that funds provided by the Ministry be spent in accordance with approved operating plans and budgets. They also permit the Ministry to terminate an agreement if a material breach of the agreement is not corrected within 30 days of ministry notification.

We will follow up on the implementation of the new agreements to determine whether the Ministry is holding service providers accountable for their management of public funds and for meeting operating plan commitments.

PAYMENT PROCESSING

The Ministry's Fiscal Strategies Branch processes payments to community-based mental health service providers twice monthly. The payments that we reviewed were properly approved, processed and paid.

Each service provider is required to submit year-end settlement forms, including audited financial statements, to the Ministry within four months of the fiscal year-end. The settlement forms detail revenues and expenditures. Any surplus funds (excess of revenues over expenditures) are recovered by the Ministry. Our review of this process found that surpluses represented approximately 1.6% of total payments to service providers and were generally being recovered on a timely basis.

COMMUNITY PSYCHIATRIC PAYMENT PROGRAM

The community psychiatric payment program provides funding for a variety of indirect services which are not covered by the Ontario Health Insurance Plan. These services include participation in case conferences, psychiatric department program consultations and educational services provided by psychiatrists and general practitioners through general hospitals and commu-

nity-based mental health service providers. Payments for these services under the community psychiatric payment program are referred to as sessional fees. For the 1995/96 fiscal year, funding for these services totalled \$9.1 million for general hospitals and \$2.8 million for other community-based mental health service providers.

ALLOCATION OF FUNDS

In the fall of 1993, the Ministry established a working group to assist in redesigning the community psychiatric payment program. In its October 1994 report, the working group noted that great disparities existed in the allocation of sessional funds between and among general hospitals and other community-based mental health service providers. The working group also noted that funding allocations were based "... more on the historical aspect than rational planning."

We were informed by ministry staff that this issue has not been addressed. During our audit we noted that significant disparities continue to exist. For example, in the 1996/97 fiscal year, sessional funding provided to hospitals with psychiatric beds ranged from \$0 to \$423,000.

Recommendation

The Ministry should ensure that sessional funding is allocated on a reasonable and equitable basis rather than on a historical basis.

Ministry Response

The Ministry agrees with this recommendation. The Ministry will examine the question of reallocating sessional fees based on equity through current health services restructuring and system design initiatives.

MONITORING

In January 1995 the Ministry introduced new guidelines, definitions of eligible services and a quarterly monitoring report for sessional funding to improve accountability and ensure consistency with the principles of mental health reform. According to ministry guidelines, "The priority for the use of sessional fees is directed towards client-related issues and in particular to the severely mentally ill."

We found that the Ministry did not have procedures in place to ensure that contractual arrangements and billing formats were established by the hospitals and other service providers receiving sessional funding. We selected a sample of hospitals and noted that while all of them had established billing formats, 70% had not established contracts with the doctors receiving sessional funding. These hospitals received approximately \$1.7 million in sessional funding during the 1996/97 fiscal year.

The Ministry monitors the type and quantity of sessional services delivered through quarterly reports submitted by general hospitals and other service providers. However, these reports did not include the number of severely mentally ill individuals being served even though they are a priority for the use of sessional funding.

In addition, at the time of our audit, 73% of the reports for the two most recent reporting periods had not been submitted. For those reports submitted, we noted that the Ministry did not monitor the appropriateness of the sessional services being provided.

Recommendation

In order to ensure the appropriate use of sessional funding, the Ministry should implement procedures such that:

- timely information is received on the use of sessional funding; and
- sessional funding is spent in accordance with ministry guidelines.

Ministry Response

The Ministry agrees. The Ministry has implemented a computerized Community Sessional Fee Logging System that will enable timely follow-up. As well, the reporting of compliance is improving through ongoing verbal and written reminders to agencies. The Ministry will continue to pursue compliance through the agencies' regular reporting processes.

3.09

HOMES FOR SPECIAL CARE

The Homes for Special Care (HSC) program was established in 1964 under the *Homes for Special Care Act*. This program provides accommodation in residential homes and nursing homes primarily to former patients of provincial psychiatric hospitals. At the time of our audit, there were 161 residential HSCs which served approximately 1,450 individuals and 133 nursing homes with HSC beds which served approximately 740 residents. Expenditures for residential HSCs were \$19.4 million for the 1996/97 fiscal year. Funding for nursing-home-based HSC beds is provided under the Long Term Care Program, which is responsible for the operation of nursing homes. Accordingly, our audit did not include nursing-home HSCs.

QUALITY OF CARE

Homes for Special Care are licensed annually under the *Homes for Special Care Act* and Regulations. The Ministry inspects residential HSCs and renews their licences annually in conjunction with inspections from the local fire department and public health unit.

We reviewed a sample of files and noted that inspections were generally completed on a timely basis and that identified deficiencies were addressed. Licence renewals for the 1996 calendar year were generally issued approximately seven months late primarily due to a staff reorganization at the Ministry.

Although the Act does not stipulate any standards for the quality of resident care, the *Interim Operating Guidelines Manual* sets out the minimum standards of care along with specific indicators to be used in the assessment and monitoring of these standards. While HSCs are inspected for adherence to these guidelines, compliance is not a requirement for licence renewal.

Recommendation

To ensure that Homes for Special Care provide appropriate and consistent resident care across the province, the Ministry should mandate compliance with the minimum standards of care as a condition of licence renewal.

Ministry Response

In response to the Homes for Special Care review conducted in the autumn of 1996, the Ministry is considering possible modifications to the Homes for Special Care program, including those which would address issues related to standards of care.

PROCESSING OF PAYMENTS AND RECOVERIES

The Ministry pays operators of residential Homes for Special Care a per diem rate per resident to provide accommodation, food and supervision. The rate is set by Regulation under the *Homes for Special Care Act*. At the time of our audit, the rate was \$27.63. Additional funding is provided for residents' comforts, including toiletries, apparel and recreation. We selected a sample of payments and found that they were adequately supported, and properly approved, processed and paid.

Regulations also stipulate that residents of HSCs who are 18 years of age or older and have property are required to repay amounts paid on their behalf by the Ministry. The amounts recoverable by the Ministry are reduced by a resident's entitlement under the *Family Benefits Act*. The Supply and Financial Services Branch of the Ministry is responsible for recovering these payments from residents. Recoveries are made through the Office of the Public Guardian and Trustee, private trustees or directly from the resident. Recoveries during the 1996/97 fiscal year totalled \$16.3 million. As at March 31, 1997, the Ministry was owed a total of \$6.8 million.

From our sample of HSC accounts receivable, we noted that recoveries could be increased through more timely monitoring of residents' accounts and better communication among the ministries of Health and Community and Social Services and the Office of the Public Guardian and Trustee.

Recommendation

The Ministry should improve its procedures to help ensure that it recovers the payments made on behalf of residents of Homes for Special Care that it is entitled to.

Ministry Response

The Ministry supports this recommendation. In response to the Homes for Special Care review conducted in the autumn of 1996, the Ministry is considering possible modifications to the Homes for Special Care program, including modifications of program administrative procedures. The Ministry has implemented a computerized Homes for Special Care information system. In order to assist in monitoring, it is our expectation that the modifications to the system will include the capability to produce ageing reports which may facilitate an efficient recovery process.

In addition, we are exploring the possibilities of an electronic interface with the Office of the Public Guardian and Trustee and the Family Benefits Branch of the Ministry of Community and Social Services to take advantage of available assets that can be offset against the amounts owing by the residents. This would considerably reduce the amounts that are currently reported as outstanding.

RESPITE CARE GRANTS

Since the 1987/88 fiscal year, each residential Home for Special Care has received an annual respite care grant of \$3,000. The primary purpose of this grant is to enable HSCs to hire relief staff to cover vacation periods to ensure resident supervision is not reduced. For the 1996/97 fiscal year, these grants totalled approximately \$480,000.

We found that the Ministry did not have procedures in place to ensure that Homes for Special Care used the respite care grant for its intended purpose. We also noted that the amount of the grant did not depend on the number of beds in a HSC (which at the time of our audit ranged from 2 to 40) or any other factor. Therefore, we question whether providing respite care grants in addition to regular maintenance payments is achieving its intended purpose.

Recommendation

The Ministry should assess whether it should continue to provide respite care grants for staff relief.

Ministry Response

The Ministry supports this recommendation. Consideration will be given to whether the funding structure of the Homes for Special Care program is as effective as possible, including whether the Ministry should provide respite care grants for staff relief.

MINISTRY OF HEALTH

Public Health Activity

The Public Health Activity (Activity) provides funding for programs designed to maintain population health through health protection, health promotion and disease prevention. The Ministry's Public Health Branch (Branch), under the direction of the Chief Medical Officer of Health, is responsible for administering the Activity.

The development and funding of public health programs and services is primarily governed by the *Health Protection and Promotion Act*. The Branch is also responsible for administering the *Immunization of School Pupils Act*, the *Day Nurseries Act* and the *Tobacco Control Act*.

The *Health Protection and Promotion Act* (HPPA) provides the authority for establishing local health units which in turn are administered by autonomous local boards of health. At the time of our audit, there were 42 local health units in Ontario, of which 33 were governed by a board of health whose members were appointed under the HPPA. The remaining nine were operated by regional municipal councils, which have the powers and duties of a board of health.

Every board of health is required to appoint a full-time medical officer of health who must be approved by the Minister of Health. Medical officers of health are responsible for the management and administration of the health programs and business affairs of the board. Medical officers of health have authority to issue orders to abate health hazards and to prevent the spread of communicable disease.

Under the HPPA, the Minister has the authority to require boards of health to provide specified programs and services. In addition, boards of health may deliver other programs and services to meet local health needs. The Ministry has established 20 mandatory public health programs which are divided into four areas of focus: Healthy Growth and Development; Healthy Lifestyles; Communicable Disease Control; and Healthy Environments. The mandatory programs have been defined in the Ministry's 1989 *Mandatory Health Programs and Services Guidelines* which includes goals, objectives and program requirements and standards for each of the 20 programs. The HPPA requires boards of health to comply with guidelines published by the Ministry.

The cost of the mandatory programs is normally shared by the Ministry and municipalities. Depending on the program, the provincial share can range from 40% to 100% of the cost. Programs that are not mandatory are normally funded by the municipalities served by the boards of health providing them. The Ministry also provides free vaccines under its mandatory Vaccine Preventable Diseases Program.

For the 1996/97 fiscal year, expenditures of the Public Health Activity totalled \$283 million, of which approximately \$237 million was spent on transfer payments for the delivery of mandatory programs and services; \$40 million for the purchase of vaccines; and \$6 million for branch operating expenditures.

OBJECTIVES AND SCOPE

The objectives of our audit of the Public Health Activity were to assess whether the Ministry had adequate policies and procedures in place:

- to ensure that public health programs were funded and delivered with due regard for economy and efficiency and in accordance with applicable legislation; and
- to measure and report on the effectiveness of provincially-funded public health programs.

Our audit focused primarily on the mandatory programs related to Communicable Disease Control since many of the other major mandatory programs were under review by the Branch. In conducting our audit, we reviewed and analyzed Branch procedures and policies; interviewed appropriate branch staff and outside medical experts; reviewed relevant literature; and researched the delivery of public health programs in other jurisdictions. We also reviewed any relevant audit work performed by the Municipal Audit Bureau and the Audit Branch of the Ministry of Health and, where warranted, relied on their work.

3.10

OVERALL AUDIT OBSERVATIONS

The Public Health Branch has recently introduced a number of significant initiatives. These include mounting hepatitis B and measles immunization campaigns for children; promoting influenza and pneumococcal vaccines for the elderly; addressing the causes of vaccine wastage; and adopting food safety protocols.

However, we found that the Ministry needs to take steps to better ensure that public health programs are being funded and delivered with due regard for economy and efficiency and in accordance with applicable legislation. Specific actions would include:

- ensuring that funding to boards of health is allocated equitably by expanding the use of indicators of service costs and the relative health needs of communities;
- ensuring that assessments of the immunization status of children are being completed by boards of health in accordance with legislation; and
- determining the reasonableness of variances in the cost of immunization programs delivered by boards of health and taking corrective action as required.

Improvements are also required to enable the Ministry to measure and report on the effectiveness of provincially-funded public health programs. In particular, the Ministry needs:

- to periodically report publicly the results of public health programs delivered by boards of health;
- to improve the quality of information available on the results of immunization campaigns to enable the Ministry to take corrective action as necessary;
- to establish and monitor the attainment of coverage targets for adult immunization programs;

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- to obtain information to evaluate the effectiveness of contact tracing and case management programs for tuberculosis and sexually transmitted diseases;
 - to assess whether food safety inspection protocols have been implemented by boards of health and whether they have been effective; and
 - to assess whether additional enforcement measures are required for the *Tobacco Control Act*.

DETAILED AUDIT OBSERVATIONS

ACCOUNTABILITY TO THE LEGISLATIVE ASSEMBLY

The *Ministry of Health Act* requires the Minister to prepare an annual report on the affairs of the Ministry and submit it to the Legislative Assembly. However, there is no specific requirement to report on the effectiveness of public health programs or the health status of the people of Ontario. Since 1991, the Chief Medical Officer, on his own initiative, has been issuing annual public reports that have focused on specific public health concerns such as immunization and tobacco use.

Reporting to the Legislature on whether provincial standards for public health programs have been met would enhance the accountability of the Public Health Activity. We reviewed the legislation and reporting responsibilities for this function in several other provinces.

For example, the responsibilities of the Chief Medical Health Officer for Saskatchewan include publishing an annual report that identifies the health status of Saskatchewan's population and the effectiveness of public health programs and recommends public health issues for consideration at both the provincial and district levels. In British Columbia the Provincial Health Officer is required to report annually to the Health Minister and the public on the health of the people of British Columbia. The Minister must submit the report to the Legislative Assembly.

Recommendation

To improve the accountability of the Public Health Activity, the Ministry should consider periodically reporting to the Legislative Assembly on the extent to which:

- public health programs delivered by boards of health have met provincial standards; and
- provincial public health objectives have been achieved.

Ministry Response

This can be given further consideration as implementation plans for 100% municipal funding of public health are developed. Under Who Does What [an initiative to redefine the financial and service delivery relationship between the province and the municipalities] and municipal funding, the Ministry will be responsible for setting and monitoring compliance with provincial standards for public health programs. Periodic reporting or tabling of reports in the Legislature could be considered.

3.10

FUNDING ARRANGEMENTS

Municipalities share with the Ministry the funding for mandatory public health programs delivered by their boards of health. Over time, significant variations in funding have occurred, with per capita funding for some boards being three times the rate of that for other boards.

The Ministry has not conducted any systematic review to determine whether these funding variations are the result of differing health needs or the costs of providing the programs. Branch staff have indicated that in many cases the variations appear to be based solely on historical patterns. While the Branch's program-based planning and budgeting process attempts to relate program resources to services provided, insufficient information is provided on the quantity and quality of services actually delivered.

Commencing in 1996 provincial funding to boards of health was to be reduced by 15% over three years. Rather than applying a standard percentage reduction to each board, the Branch developed an "equity funding strategy" to ensure that the reduction was applied in a rational manner by using indicators of community health needs and service costs. This led to a decrease in the variances among boards. The Branch had not yet determined whether these indicators could be used to allocate all funding to boards of health.

Recommendation

To ensure that funding for all mandatory public health programs is allocated equitably, the Ministry should expand the use of indicators of service costs and of the relative health needs of communities.

Ministry Response

The province will no longer be funding boards of health to provide public health programs after January 1, 1998.

The Ministry's funding involvement will be through a more indirect means, that is, requiring that provincial standards be met, and thus indirectly requiring local funding levels be adequate to meet the standards. The distribution of funding for the new Healthy Babies/Healthy Children Program, which will continue to be provincially funded, has taken health status and other indicators into account in the distribution of funding to boards of health.

VACCINE PREVENTABLE DISEASES PROGRAM

The goal of the Ministry's mandatory Vaccine Preventable Diseases Program is "to reduce the incidence of vaccine-preventable diseases." Immunization is considered to be a cost-effective health intervention leading to improved health, reduced suffering and fewer premature deaths. The Ministry supplies certain vaccines free of charge to boards of health and physicians. In the 1996/97 fiscal year, the Ministry spent approximately \$40 million on vaccines.

In his 1995 annual report, which focused on immunization, Ontario's Chief Medical Officer of Health stated that "the value of immunization has been established beyond any reasonable doubt." However, he also noted that "we have become complacent about immunization, and our levels of childhood and adult immunization are too low. Improving these rates is an opportunity to prevent disease and provide protection against outbreaks."

IMMUNIZATION OF CHILDREN

The immunization of children is governed by the *Immunization of School Pupils Act*, the *Day Nurseries Act*, and the mandatory Vaccine Preventable Diseases Program guidelines. Vaccination programs for children in Ontario cover eight different diseases: diphtheria, pertussis, tetanus, polio, mumps, measles, rubella and *Haemophilus influenzae* type B. Programs begin for children at two months of age and are completed by their second birthday. Additional vaccinations are required between ages 4 to 6 and ages 14 to 16.

A Regulation under the *Day Nurseries Act* requires every operator to ensure that children are properly immunized before being admitted to a day nursery and from time to time thereafter. Mandatory program guidelines require boards of health to assess the immunization status of all children in licensed child care programs to ensure that they are appropriately immunized.

The *Immunization of School Pupils Act* requires local medical officers of health to maintain immunization records for each pupil attending school in the area they serve and to keep under review the immunization record of any pupil who has not been adequately immunized as prescribed by legislation. In addition, the Act authorizes local medical officers of health to take appropriate action with respect to inadequately immunized pupils, including suspending them from school. Under program guidelines, boards of health are required to assess and keep up-to-date immunization records on all school children.

Boards of health use the Immunization Record Information System (IRIS), which was introduced in 1992, to maintain and report on immunization records of children enrolled in day nurseries and schools. We reviewed the most recent information available from IRIS for day nurseries, which covered September 1994 to June 1995, and found that, based on licensed day care spaces, boards of health had assessed the immunization status of only 67% of the children in day nurseries. Of the children assessed, only 66% were determined to be properly immunized.

We also reviewed the two most recent IRIS reports available for school children. These reports, which covered the 1993/94 and 1994/95 school years, showed that the percentages of pupils whose immunization status had been assessed and found to be in accordance with the immunization schedule were 77% and 82%, respectively. Of the remaining students for the 1994/95 school year, IRIS records indicated that approximately 13.5% had not been fully immunized and 4.5% had not been assessed.

In addition, we noted that coverage rates for the 1994/95 school year varied significantly among health units. Several health units had very low coverage levels, with one reporting a coverage rate of 60%.

1994/95 Assessed Immunization Coverage Rates by Board

*Assessed Immunization Coverage Rate	Number of Boards
Less than 75%	5
75 to 85%	12
86 to 90%	12
91 to 95%	10
Over 95%	3

* Percentage of school children who have been assessed and are fully immunized.

Source: Ministry of Health

While the Branch attempted to follow up with boards of health that had low coverage rates in the 1993/94 school year, this was not done for the 1994/95 school year. Branch staff were of the opinion that boards of health had performed limited assessments of pupils during the 1995/96 school year because of a measles immunization campaign and, accordingly, did not obtain a coverage report for that year.

Recommendation

To better achieve its goal of protecting public health and preventing disease, the Ministry should monitor board of health assessments of the immunization status of children in day nurseries and schools and take appropriate corrective action as necessary.

Ministry Response

The Public Health Branch is committed to monitoring day nurseries and schools. The year under review was a unique year in that health units had additional new immunization programs to administer (measles and hepatitis B catch-up). This routine monitoring of immunization coverage rates was postponed or delayed by some boards. It is expected that routine monitoring by all boards will be implemented from now on. As well, because the draft Mandatory Programs and Services Guidelines stipulates that boards monitor coverage rates, the Ministry will be assessing compliance with this requirement.

IMMUNIZATION OF ADULTS

Unlike the immunization of children, the immunization of adults is not required by legislation. Reliance is placed on boards of health and health care providers to promote adult immunization. The Vaccine Preventable Diseases Program guidelines state that boards of health "shall promote and provide adult immunization, according to provincial guidelines, through educational activities organized in institutions, high schools, colleges and universities and, where appropriate, the workplace."

INFLUENZA

Research has demonstrated that the influenza vaccine can prevent up to 70% of hospitalizations for pneumonia and influenza among the elderly. The Public Health Branch provides free influenza vaccines for individuals in high-risk groups, individuals 65 years of age and older, and residents of long-term care facilities.

In February 1993 a Canadian Consensus Conference on Influenza recommended as national objectives for influenza vaccine coverage 95% for residents and staff of long-term care facilities by the 1995/96 influenza season, and 70% for all people aged 65 and over and individuals with high-risk medical conditions by the 2000/2001 season. However, the Branch does not have influenza vaccine coverage targets for Ontario.

The two most recent branch estimates of influenza vaccine coverage for individuals aged 65 and over and those less than age 65 who were at high risk were 58% and 56% for the 1993/94 and 1994/95 influenza seasons, respectively.

Under the Vaccine Preventable Diseases Program, boards of health are required to ensure the availability of the influenza vaccine and promote information on the disease and the vaccine schedule to all long-term care facilities (nursing homes, homes for the aged and chronic care hospitals).

The Branch and several boards of health have implemented a program to increase the influenza vaccine coverage of residents and staff of such facilities. These boards serve 22% of the residents of long-term care facilities in Ontario. Statistics collected by the Branch for the 1995/96 influenza season indicated that approximately 88% of the residents and 30% of the staff of long-term care facilities covered by these boards had been immunized. However, the Branch does not have coverage information for the other 78% of residents in long-term care facilities served by other boards of health.

PNEUMOCOCCAL DISEASE

Pneumococcal infections are estimated to account for 30% to 50% of adult hospital admissions for community-acquired pneumonia and cause thousands of deaths among the elderly in Ontario each year. The elderly and individuals with certain chronic medical conditions are at a higher-than-average risk of contracting pneumonia and other serious diseases caused by pneumococcal bacteria.

The pneumococcal vaccine is usually administered once in an individual's lifetime. The mandatory program requires boards of health to promote the pneumococcal vaccine to individuals for whom it is recommended. However, the Branch has not set specific coverage targets.

The Chief Medical Officer of Health stated in his 1995 report on immunization that "Ontario doctors and the Ontario immunization program have been slow in adopting this vaccine. There is no good reason for this delay." In the fall of 1996, the Ministry introduced a publicly funded pneumococcal vaccine program to be phased in over three years for all high-risk groups and adults 65 years of age and older. The phase-in period was necessary because of the limited amount of vaccine available from the manufacturer. Early results indicated a high response rate to the program.

TETANUS AND DIPHTHERIA

The mandatory program requires boards of health to promote adult immunization, but sets no specific targets with respect to the immunization of adults for tetanus and diphtheria. The *Canadian Immunization Guide* recommends a booster shot every 10 years to maintain immunity against tetanus and diphtheria.

Although relatively few cases of tetanus or diphtheria have been confirmed in Ontario in the past 10 years, outbreaks of diphtheria with high fatality rates have been reported in many other parts of the world. Immigrants and visitors are not required to show proof of immunization, nor are they required to be immunized upon entry into Canada. This increases the risk of diphtheria being contracted by individuals in Ontario who have not had a booster shot within 10 years. A recent survey in Ontario which tested blood samples showed susceptibility levels of adults to tetanus and diphtheria of 18% and 21%, respectively. The survey also found that susceptibility to both diseases increased with age.

Recommendation

To contribute to its goal of protecting public health and preventing disease, the Ministry should:

- establish coverage targets for influenza, pneumococcal, tetanus and diphtheria vaccines; and
- develop systems to monitor attainment of these targets and take appropriate corrective action as necessary.

Ministry Response

The revised draft Mandatory Health Programs and Services Guidelines outlines vaccine coverage rate goals for all the above diseases. Monitoring immunization coverage rates requires a joint process between the Ministry's Public Health and Provider Services Branches. Presently a pilot project of this nature is under way.

This project is a three-site pilot in which immunization is specified on the billing data submitted to the Ontario Health Insurance Plan, Provider Services Branch. The purpose of the pilot project is to examine the process, which includes the transfer of immunization data from the pilot sites to the Provider Services Branch and then to the Public Health Branch to determine its accuracy and its potential feasibility on a province-wide basis. If there is adequate accuracy in the health care providers' reporting to the Ontario Health Insurance Plan of the vaccine administered, then the Ministry will have better information about vaccine coverage rates of the population of all ages (not just school and day nursery pupils). The pilot project began in June 1997 and is expected to be completed by December 1997.

IMMUNIZATION INFORMATION SYSTEM

Experts have expressed concerns that many preschoolers do not receive all of their required vaccinations. In his 1995 report on immunization, the Chief Medical Officer of Health noted that since most vaccinations are given by private physicians, public health officials cannot determine which children have missed being immunized until they enter school or a licensed daycare centre. The Immunization Record Information System (IRIS) contains immunization information on school-aged children.

To determine the percentage of school-aged children that had received all required vaccines by age two, we obtained information contained in IRIS on children born between 1989 and 1991. The results indicated that only 68% of these children had received all required vaccinations on time.

Currently, the Branch has only rough estimates of vaccine coverage for adults and no information about the immunization status of individual adults. Determining coverage rates would enable the Branch to develop appropriate strategies to improve them.

Many jurisdictions have recognized the need for immunization information systems which can provide accurate, complete and timely information on vaccinations. Such a system can be used to issue reminders to parents, to identify children in need of vaccinations and to assess overall immunization coverage. An appropriate system could also be used to determine immunization rates for adults. For example, since 1988 Manitoba has had a system which uses specific billing codes to identify vaccines provided and issues reminders to physicians and parents when vaccinations are due. The United Kingdom has had such a system since the mid-1980s. As well, efforts are under way in other provinces and parts of the United States to develop similar systems.

We also noted that Manitoba is developing a health information network to link health care providers across that province, providing fast access to patient information such as prescriptions, treatments, diagnostic test results and immunization history. In 1992 the Branch attempted unsuccessfully to have Ontario Health Insurance Plan billing codes introduced for specific vaccines.

Recommendation

Immunization is a major contributing factor to the Ministry's goal of protecting public health and preventing disease. Therefore, to better track the immunization of children and adults, the Ministry should assess the feasibility of modifying existing systems or developing appropriate ones to capture the necessary information.

Ministry Response

The Public Health Branch is currently working on improving monitoring systems to enable better assessment of immunization coverage in the population (through the pilot project mentioned in the response of the previous section). In addition, a Biological Inventory System has recently been implemented to help track vaccines and medications through the distribution system (physicians' offices, health units and the Ontario Government pharmacy). It could also be used to monitor usage of vaccines as well as tuberculosis and sexually transmitted disease drugs. The Ministry will investigate the feasibility of modifications to the system to allow this monitoring to occur.

PROVINCIAL IMMUNIZATION CAMPAIGNS

Recently, public health officers have noticed an increase in the number of reported cases of hepatitis B and measles. Both diseases are preventable through vaccinations. The measles vaccine is part of the standard immunization requirement for children. About 10% of the recipients of the measles vaccine do not successfully develop immunity from a single dose. While vaccinations for hepatitis B are not routinely provided, this sexually transmitted disease is difficult to treat once it is contracted.

To address these matters, the Ministry introduced campaigns beginning in 1994 to immunize all grade 7 students for hepatitis B and in 1996 to provide all school children with a second dose of the measles vaccine. Proper immunization against hepatitis B requires three doses of vaccine.

The Ministry provided boards of health with the necessary vaccines, which cost approximately \$10 million. Additional funding totalling approximately \$4.5 million was provided to boards to defray added administration costs for delivering the campaigns. This was based on an estimated per-dose cost of \$5 for the hepatitis B vaccine and \$1 for the measles vaccine. Studies conducted by the Branch indicated that both immunization campaigns had attained a provincial coverage rate exceeding 90%.

Our review and analysis of the reported data indicated the cost to deliver the 1995/96 hepatitis B campaign varied significantly among boards. A consultant who reviewed the 1996 measles campaign made a similar observation. Actual administration cost per dose for measles vaccines ranged from \$2.46 to \$22.50; for hepatitis B vaccines, the range was from \$4.42 to \$23.10.

Most health units were not able to conduct their campaigns for \$5 and \$1 per dose. As a result, boards of health had to redirect resources from other mandatory public health programs such as the maintenance of the immunization information system.

The consultant's report to the Ministry stated that a number of boards had reported a rather high cost per dose but the consultant could not explain the reasons for these high costs. The consultant also concluded that costing efforts could serve as a starting point for planning and budgeting for future provincial immunization campaigns. The Branch did not obtain explanations from the boards on their reported costs.

Recommendation

To assist in planning future immunization campaigns and to identify opportunities for increased operational efficiency, the Ministry should obtain from a sample of boards explanations of why their costs were significantly higher or lower than the provincial average for delivering the recent hepatitis B and measles campaigns.

Ministry Response

This recommendation will be considered before future immunization campaigns are planned. Since funding for delivery of these programs is being devolved to the municipalities, the Ministry's ability to influence local operational efficiencies in future campaigns will be based on more indirect methods.

FINANCIAL CONTROLS OVER VACCINE EXPENDITURES

The Ministry provides vaccines free of charge through its Outbreaks of Diseases transfer payment program. The Public Health Branch is responsible for determining the type and quantity of vaccines to be ordered. The Ministry's Purchasing Unit is responsible for acquiring the required vaccines and the Ontario Government Pharmaceutical and Medical Supply Service (Government Pharmacy) is responsible for the storage and distribution of vaccines.

Physicians located outside of Metropolitan Toronto order vaccines as needed from their boards of health while physicians located in Metropolitan Toronto order them directly from the Government Pharmacy.

The review and payment of vaccine supplier invoices is performed by the Government Pharmacy. Each month, the Government Pharmacy charges the Public Health Branch for the vaccines that have been distributed. During our audit of charges to the Branch, we noted the situations described below.

- Branch staff lacked sufficient documentation to assess the reasonableness of the charges from the Government Pharmacy. For example, we determined that for one type of vaccine, the Government Pharmacy charged the Branch \$1.7 million more than was indicated on the authorized purchase order. We were informed by staff of the Government Pharmacy that this resulted from a programming error and that the Program has been appropriately credited.

- Branch staff did not confirm the amount of vaccine ordered nor did they receive copies of the issued purchase orders. We noted that in 1995 the Branch had informed the Purchasing Unit that a particular vaccine would no longer be required. However, the Unit continued to issue purchase orders for the vaccine until January 1997, receiving approximately \$64,000 in vaccines during that time. These vaccines were either returned to the supplier or distributed to public health boards to be used.

Recommendation

To better control vaccine expenditures, the Ministry should:

- work with the Government Pharmacy to develop a system which will allow Public Health Branch staff to review charges to its budget; and
- require that Public Health Branch staff review and sign off on all vaccine purchase orders before they are issued.

Ministry Response

The Public Health Branch and the Government Pharmacy are developing a system that will allow enhanced monitoring of vaccine usage and expenditures. The Public Health Branch will work with the Government Pharmacy to improve accountability.

VACCINE PURCHASING

Contracts with certain suppliers of vaccines include a “value-added award” component. In return for the Ministry agreeing to pay a higher per-unit cost for a vaccine, the supplier agrees to provide related supplies and other services, more vaccines and/or money that the Branch reinvests in its immunization programs. The value-added award is equivalent to the additional amount the Ministry paid for the vaccines.

This method of awarding contracts results in overstating the actual cost of the vaccines since the value-added component is included in the acquisition price.

The Branch does not have a formal record-keeping system to track value-added awards. We reviewed two contracts issued in June 1996 which totalled \$610,000 in value-added awards. From our review of available correspondence, we determined that approximately \$300,000 remained to be utilized by the Ministry. Subsequent to our audit, we were informed by branch staff that the supplier had been requested to confirm the amounts outstanding and that the Ministry was in the process of utilizing the remaining funds.

Recommendation

To ensure that value for money is received from the acquisition of vaccines, the Ministry should:

- pay for vaccines and services separately; and
- ensure that any outstanding value-added funding held by the vaccine suppliers is properly recorded and used or recovered.

Ministry Response

Administrative (financial) controls for administering the value-added funding held by the vaccine suppliers are in the process of being developed with a view to separating the cost of vaccines from services.

VACCINE WASTAGE

In 1992 the Public Health Branch estimated that 10% of all vaccines issued for its immunization programs were wasted. Since then, the Branch has taken action to reduce vaccine wastage by providing educational materials on vaccine storage and handling to physicians and boards of health. In addition, the Branch has distributed thermometers, logbooks and insulated vaccine transport carry bags to physicians and provided boards of health with additional funding to purchase refrigerators and thermometers. The Branch plans to evaluate the impact of these initiatives and expects to release a vaccine distribution, storage and handling guideline to all boards of health and physicians in 1997. Boards of health will be held financially accountable for any vaccine losses attributable to them.

The Branch's goal is to reduce vaccine wastage to 5%. Before this goal can be achieved, the Branch requires complete and accurate data on vaccine distribution, usage and returns. While information on vaccine distribution and returns from health units is available, the Branch does not have information on actual vaccine usage by private physicians who administer approximately 90% of the vaccines.

The Branch has also developed a system to improve vaccine inventory management. This system will be made available in 1997 to all boards of health to monitor the vaccines they distribute. Vaccine orders by physicians within Metropolitan Toronto and provincial usage of drugs for sexually transmitted diseases and tuberculosis could be tracked by the Government Pharmacy's system if proper modifications were made.

We will follow up on the results of the Ministry's initiatives on vaccine wastage at the time of our next cyclical audit of the Activity.

TUBERCULOSIS CONTROL

World-wide, tuberculosis (TB) is the leading cause of death from a single infectious disease and is responsible for at least three million deaths each year. An individual with active TB of the lungs is a considerable health risk to others. In 1993 the World Health Organization (WHO) declared TB a global emergency. WHO estimates that one third of the world's population, mostly in developing countries, is infected with TB. About 50 million people may be infected with strains of TB that are resistant to one or more common anti-TB drugs.

Currently, Ontario has one of the lowest rates of active TB cases in the world, with 776 reported cases in 1995. However, Ontario rates are no longer declining significantly. Most of the cases in Ontario occur among immigrants living in major urban centres.

TREATMENT

The mandatory Tuberculosis Control Program requires boards of health to monitor patients' compliance with prescribed drug therapy, which requires six to eight months. Failure to com-

plete the therapy may result in disease recurrence and drug resistance. WHO recommends directly observed treatment (DOT) whereby a health worker or other responsible individual watches the patient actually swallow the prescribed drugs. Based on a 1996 branch survey of boards of health, DOT was used for 10% of TB cases.

At the time of our audit, the Branch was reviewing the need for DOT in Ontario. In addition, a study is under way to look at strategies to improve patient completion of TB treatments, as well as to obtain information about the TB case management practices of boards of health and physicians.

CONTACT TRACING

The mandatory TB Control Program requires boards of health to locate and screen individuals who have been in contact with a person who has active TB to determine whether they require treatment. In some cases this effort can involve trying to locate and screen hundreds of people.

The Branch's Reportable Disease Information System (RDIS) contains limited information about the extent and results of contact tracing. The Branch plans to replace RDIS with an improved system which could collect additional information and would enable the Branch to more effectively monitor and evaluate TB contact tracing by boards of health.

Recommendation

To help monitor the effectiveness of the Tuberculosis Control Program, the Public Health Branch should obtain additional information on the results of tuberculosis contact tracing by boards of health.

Ministry Response

A new information system for tracking reportable diseases is in early development. Additional information on contacts of active cases will be included, resulting in improved management of contacts by the local health departments and more complete data for monitoring the effectiveness of the Tuberculosis Control Program.

SCREENING HIGH-RISK GROUPS

The mandatory TB Control Program requires boards of health to screen groups of people who have a high risk of TB infection. Tuberculin skin testing is the standard method of identifying individuals who are infected with TB but have not developed the disease. Approximately 10% of those infected will go on to develop TB. Appropriate drug therapy can eliminate the infection before the disease develops.

In Ontario, routine screening of school children was discontinued in the early 1980s when consistently low rates of TB infection were found. However, shifting immigration patterns have brought many children to Ontario schools from countries where TB is common.

In the early 1990s, boards of health in urban areas with large numbers of recent immigrants conducted TB screening of school children from countries where TB is prevalent. However, about half of these boards have now stopped screening due to doubts about screening effectiveness and other commitments such as the hepatitis B and measles immunization campaigns.

An October 1995 study of the 1992/93 TB school screening program in the City of Toronto concluded that the effectiveness of the voluntary screening program was significantly reduced by low participation and poor rates of prescription of preventive drug therapy by physicians.

Some boards of health have instituted mandatory TB screening for high-risk children entering school. However, an evaluation of the screening program at one board found that only 25% of the school children with positive skin tests received drug therapy. The study concluded that efforts should be focused on increasing the prescription of preventive drugs by physicians and the taking of medication for the required time.

In April 1997 the Branch surveyed family physicians about their attitudes and practices regarding TB prevention. The survey results should assist in developing ways to encourage the prescribing of preventive drug therapy.

Boards of health with mandatory TB school-screening programs rely on a provision in the *Education Act* which states that a school principal has a duty to refuse admission to any person the principal believes to be infected with or to have been exposed to communicable diseases. However, using this provision requires the cooperation of school authorities. There is no legislation which addresses mandatory screening in other settings.

Recommendation

To improve the effectiveness of mandatory tuberculosis screening programs, the Ministry should:

- determine whether there is a sufficient legal basis to support the mandatory screening of high-risk groups; and
- encourage and monitor the prescribing of appropriate drug therapy.

Ministry Response

The revised draft Mandatory Health Programs and Services Guidelines include screening of high-risk groups and medical assessment of all skin-test-positive individuals. The Public Health Branch has studied and recommended changes to the Health Protection and Promotion Act regarding these issues; they will be considered when the next opportunity to make Health Protection and Promotion Act changes arises.

MEDICAL SURVEILLANCE UNDERTAKINGS

All potential immigrants and some visitors to Canada are required to undergo medical examinations including a chest x-ray for those 11 years of age or older. If the results show that an individual previously had TB which now is inactive, Citizenship and Immigration Canada requires that individual to sign a Medical Surveillance Undertaking (MSU). In an MSU the

individual agrees to medical surveillance by boards of health and to notify the appropriate authorities of address changes.

The Public Health Branch estimated that it receives about 6,000 MSUs per year from the federal government, most of which are for inactive TB. Recently the Branch estimated that approximately 35% of the MSUs for inactive TB cannot be followed up due to missing or incorrect information. Our discussions with other ministry staff indicated that the Branch may be able to use OHIP's Registered Persons Data Base to obtain the necessary information.

Recommendation

To enhance the effectiveness of the medical surveillance of individuals with inactive tuberculosis, the Ministry should improve its ability to track individuals under surveillance.

Ministry Response

The Public Health Branch is exploring the possibility of obtaining addresses of individuals on medical surveillance from the Registered Persons Data Base. This could assist in dealing with the current problem of follow-up of these individuals.

IMMIGRATION AND PUBLIC HEALTH

The federal government requires potential immigrants and certain visitors to Canada to have a medical examination which includes, in addition to the chest x-ray, the taking of a medical history, a physical examination and a test for syphilis if the applicant is 15 years of age or older. The examination is usually done in the country of origin by a physician appointed by Citizenship and Immigration Canada.

If the examinations do not effectively screen for serious communicable diseases that are prevalent in the countries from which individuals are entering Canada, there is increased risk that those diseases will be transmitted to the population here. For example, while a chest x-ray is a reasonable method for detecting TB of the lungs, it is a poor method for detecting TB infection. A more effective procedure, a tuberculin skin test, is not used. While syphilis is tested for, other infectious diseases, which may be of equal or greater public health concern, are not. Also, applicants are not required to show proof that they have been adequately immunized.

Medical experts both inside and outside the Ministry have expressed concerns about the effectiveness of the medical examination process. In November 1996 the federal Minister of Citizenship and Immigration appointed an independent Advisory Group to review Canada's immigration legislation and policies and make recommendations by December 31, 1997.

Recommendation

To better meet its goal of protecting public health and preventing disease, the Ministry should provide the federally appointed Advisory Group with suggested changes to federal immigration legislation and policies to address public health concerns in Ontario.

Ministry Response

The Public Health Branch is involved in ongoing discussions with federal counterparts on immigration issues of public health significance such as tuberculosis.

SEXUALLY TRANSMITTED DISEASES

The goal of the mandatory Sexually Transmitted Diseases Program is to reduce the incidence of and complications from all sexually transmitted diseases. Sexually transmitted diseases (STDs) are a major public health concern because they can cause serious short- and long-term health problems.

Under the *Health Promotion and Protection Act*, cases of serious sexually transmitted disease must be reported to the Public Health Branch. The information, which is provided by boards of health, is recorded in the Reportable Diseases Information System (RDIS).

The STDs Program requires boards of health to provide appropriate case management, which includes identifying, tracing and referring the sexual contacts of individuals who have been diagnosed as having a serious sexually transmitted disease. Contact tracing is important for ensuring that other individuals who may have become infected are properly treated, thus preventing further transmission of the disease. In cases where an attending physician conducts contact tracing, public health authorities are still responsible for ensuring that tracing is completed properly.

A 1991/92 federally funded survey of STD contact tracing in Canada found that very few health units had measures of their effectiveness, such as the number of patients or contacts participating in any stage of contact tracing for any sexually transmitted disease.

In 1994 the Branch attempted to measure the effectiveness of case management by boards of health by looking at the percentage of gonorrhea cases reported by each health unit which had a case disposition recorded on RDIS. However, the Branch has never performed any analysis or reviews of contact tracing for STDs. The Branch plans to replace RDIS in 1998 with an improved system that could enable the Branch to more effectively monitor and evaluate contact tracing and other aspects of case management.

Recommendation

To improve the effectiveness of efforts to reduce the incidence of and complications from sexually transmitted diseases, the Ministry should monitor and evaluate the case management practices of boards of health, including the extent and effectiveness of contact tracing.

Ministry Response

Currently, the Public Health Branch analyzes data on specified diseases received through the Reportable Diseases Information System. It is expected that the enhanced information system [for tracking reportable diseases] will allow more in-depth monitoring of contact tracing.

3.10

FOOD SAFETY PROGRAM

The goal of the mandatory Food Safety Program is to improve the health of the population by reducing the incidence of food-borne illness which can arise from consuming improperly prepared or handled food that has been contaminated by bacteria or viruses. The number of cases of food-borne illness is difficult to determine since many mild cases are not diagnosed or reported. However, Canadian public health agencies have estimated that more than one million cases of food-borne illness occur each year, of which approximately 50% of cases reported in Canada can be attributed to food service premises.

All boards of health are required to provide food safety training for operators and food handlers and to conduct inspections of food service premises. In Ontario, there are more than 30,000 food service premises.

The Branch has developed a number of food safety protocols, including the Hazard Analysis Critical Control Point (HACCP), which requires boards of health to assess the risk level of all food service premises within their respective areas. The assignment of a risk level (high, medium or low) is designed to enable boards of health to target inspection resources to higher risk facilities and dictates the type of strategy to be applied. Strategies include food safety training for food handlers and operators of food premises, yearly inspections for compliance with the Food Premises Regulation of the *Health Promotion and Protection Act*, and yearly HACCP audits on medium- and high-risk food service premises.

An HACCP audit focuses on those steps in the food preparation process that can control or eliminate food safety hazards while a compliance inspection focuses on regulatory requirements such as the design of food service premises and basic sanitation requirements. For example, a full-service restaurant would be classified as a high-risk facility requiring both an HACCP audit and a compliance inspection, while a cocktail bar would be classified as low risk, requiring only a compliance inspection.

In 1995 the Public Health Branch began requesting all boards of health to submit quarterly summary reports of their inspection activities of food service premises. Branch staff analyzed the information contained in reports from 28 boards for the first quarter of 1995. The results suggested that boards of health had focused their efforts on compliance inspections rather than

the more detailed HACCP audits required for medium- and high-risk food service premises. Furthermore, the analysis indicated that very few of the medium- and high-risk premises visited had been provided with formal food handler training. The results of this analysis were communicated to board-of-health food inspectors in December 1995.

In 1996 the number of boards submitting reports decreased from 30 in the first quarter to 18 in the third quarter. The Branch then formally requested boards of health to submit data relating to inspections of food service premises conducted for that year. In March 1997 branch staff were in the process of analyzing the reports from all 42 boards of health. This analysis should assist the Branch in determining the degree to which the HACCP protocol has been implemented.

Recommendation

To help ensure that food service premises are in compliance with acceptable public health practices, the Ministry should determine whether boards of health have fully implemented food safety training and Hazard Analysis Critical Control Point protocols, taking corrective action as necessary.

Ministry Response

Under current plans related to implementation of the Who Does What initiative, the Public Health Branch will be setting and monitoring program standards, including those related to food safety, and taking action as appropriate to enforce the standards.

RABIES CONTROL

The goal of the mandatory Rabies Control Program is to prevent the occurrence of rabies in humans. Rabies is an acute viral infection that can be transmitted to humans through domesticated animals and pets that have come in contact with a rabid animal. In Ontario, rabies occurs mainly in foxes and skunks. While domestic dogs and cats account for less than 10% of the cases of rabies in animals, bites from these pets account for the majority of suspected rabies exposures in humans. The treatment of individuals who may have been exposed to rabies must start quickly since a delay reduces the effectiveness of the vaccine. Untreated rabies is usually fatal.

The immunization of cats and dogs helps reduce the risk of rabies being transmitted to humans. The Rabies Control Program only requires boards of health to encourage the vaccination of dogs and cats against rabies. However, a Regulation under the *Health Protection and Promotion Act* requires owners of dogs and cats in areas served by boards of health that are listed in the Regulation to immunize their pets against rabies. The practice has been for each board of health to choose whether or not to be listed in the Regulation. A total of 30 boards of health are now listed.

Experts in the Public Health Branch and at the Ministry of Natural Resources agree that the four boards of health in southern Ontario not yet listed in the Regulation ought to be listed. These boards serve approximately 20% of the population of the province.

Recommendation

To better ensure that the goal of the Rabies Control Program is achieved, the Ministry should take steps to make the vaccination of cats and dogs against rabies mandatory where warranted.

Ministry Response

The Public Health Branch will propose a requirement and standard for inclusion in the revised mandatory rabies control program to ensure health units in southern Ontario implement compulsory pet rabies vaccination.

3.10

TOBACCO CONTROL ACT

In 1992 the Ministry of Health developed the Ontario Tobacco Strategy to reduce tobacco use in Ontario. To support the Strategy, the *Tobacco Control Act* (TCA), passed in November 1994, prohibits tobacco sales to minors; bans the sale of tobacco in pharmacies, health care sites and vending machines; prohibits smoking in a wide variety of public places; and requires the proper placement of signs designating no-smoking areas and prohibiting tobacco sales to minors.

The TCA allows the Minister of Health to appoint inspectors to ensure compliance with the Act. The inspection function has been delegated to the 42 boards of health.

Offences under the TCA fall into two categories. Tobacco sale offences include selling tobacco to a person who is or appears to be less than 19 or failing to post proper signs in retailer premises. General offences include public-smoking offences such as smoking in schools. Penalties include tickets with set fines and prosecutions under the *Provincial Offences Act*.

The Public Health Branch maintains a summary of charges and convictions resulting from violations of the *Tobacco Control Act* based on data submitted by boards of health. In 1996 the Branch analyzed the summary to identify boards of health with low tobacco enforcement activity. As a result, branch staff visited two boards of health to review tobacco enforcement activities. Subsequent to these visits, the number of TCA charges increased for both boards of health.

In December 1996 the Branch introduced an accountability framework for monitoring and planning tobacco enforcement activities. Boards of health were instructed to send in yearly data, beginning with 1996, on tobacco enforcement indicators including the number of full-time inspectors and the percentage of vendors inspected.

Although the Public Health Branch has no formal targets for compliance with the requirements of the TCA, it recognizes that at least 80% of vendors must comply with the provision prohibiting the sale of tobacco to minors in order to reduce tobacco use by minors.

The Ministry has funded several studies in an attempt to measure compliance with the TCA. A study conducted in 32 boards of health prior to the proclamation of the TCA showed that 55% of tobacco retailers would not sell tobacco to minors. A similar study conducted in 16 boards in

late 1996 indicated some improvement. While the overall compliance rate had risen to 74%, rates among boards ranged from 29% to 98%.

Publicity regarding enforcement activities is also an effective deterrent and may encourage voluntary compliance with the TCA. We were informed by branch staff that boards of health are encouraged to make use of the media to publicize their enforcement activities. However, the Branch has no formal procedures or strategies for publicizing TCA enforcement activities.

Recommendation

To increase compliance with the *Tobacco Control Act*, the Ministry should evaluate the use of additional enforcement measures and should develop an overall communication strategy to publicize enforcement efforts.

Ministry Response

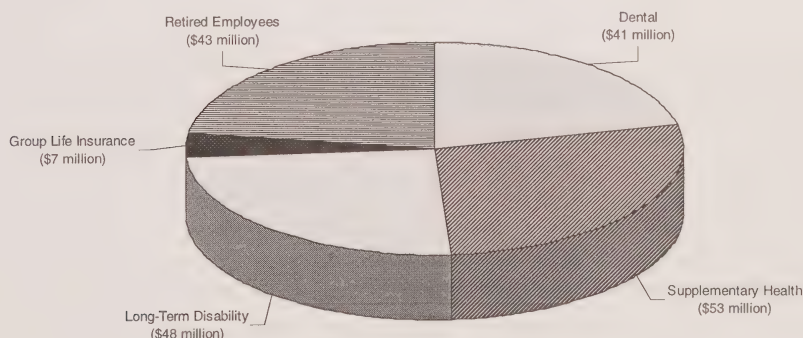
The Public Health Branch, in conjunction with the Health Promotion Branch, will explore additional enforcement measures as well as an overall communication strategy.

Employee Health Care Benefits

3.11

The Ontario government provides employee health care benefits for its employees and their eligible dependants similar to those of many other large private and public sector employers. These benefits fall under four main categories: supplementary health which covers expenses for such items as drugs and vision care; dental care; long-term disability protection; and group life insurance. Approximately 71,000 current employees are entitled to these benefits along with another 45,000 retired employees who qualify for all benefits except long-term disability. For the year ending July 31, 1996, the reporting year of the insurance carriers (processors and payers of employee health care claims), the cost of providing these benefits was \$192 million, as shown in the following chart.

Cost of Employer's Share of Health Care Benefits



Source: Management Board Secretariat

Similar to most employers who manage benefit programs for a large number of employees, the Ontario government is self-insured and uses insurance carriers to process and adjudicate employee benefit claims. This means that the government reimburses the insurance carriers for the actual benefit claims paid to employees and pays an administrative fee for their processing and adjudication services. The government currently divides the administration of its various benefit plans among three insurance carriers.

The Compensation Services Branch of Management Board Secretariat (MBS) is responsible for the management of the benefit plans. In addition, the Human Resources Systems Branch within MBS has certain administrative and systems responsibilities for the benefit plans.

OBJECTIVE AND SCOPE

Our audit objective was to assess whether the Secretariat had adequate systems and procedures in place to manage employee benefit plans with due regard for economy and in accordance with the terms of the plans.

As well as reviewing the practices used by MBS in managing its benefit plans, we performed audit work at two of the three insurance carriers which process claims on behalf of the government. We also conducted research into best practices and other initiatives being undertaken in the field of employee benefits management.

We met with benefits specialists from a number of large private and quasi-public sector organizations. Information on benefits management practices followed by three other provinces and the federal government was also obtained. In addition, we engaged the services of a benefits consulting firm to provide advice on selected issues.

This program had never been audited by the MBS Audit and Business Improvement Branch and had not been audited by our Office during the last 20 years.

OVERALL AUDIT OBSERVATIONS

From 1992 to 1996 the cost of providing health care benefits to current and retired employees and their eligible dependants increased from \$143 million to \$192 million or approximately 35% even though the number of eligible members excluding dependants has remained relatively stable. Our research indicated that during this period other large employers had also experienced similar significant increases in the cost of providing employee health care benefits and have recently initiated cost-containment measures to slow the rate of growth in benefit costs.

MBS has identified a number of possible cost-containment strategies during the past four years. One strategy that has been implemented is the recent retendering and renegotiation of insurance carrier contracts that is expected to save about \$2 million annually. However, the other cost-containment strategies have not been implemented because of reduced staffing levels in the employee benefits area, limited systems capabilities and not reaching agreement on such proposals during collective bargaining. We acknowledge that some of these strategies will require negotiation with employee unions and believe that MBS needs to thoroughly research and analyze the various cost-containment options.

Our report outlines a number of other cost-containment initiatives that are not likely to require union ratification and that can result in significant savings and need to be more actively pursued. We acknowledge that the implementation of any such initiatives may require investment in additional resources. However, we believe that the potential payback will more than justify the

investment. MBS also needs to better monitor its insurance carriers to ensure that claims are being processed accurately.

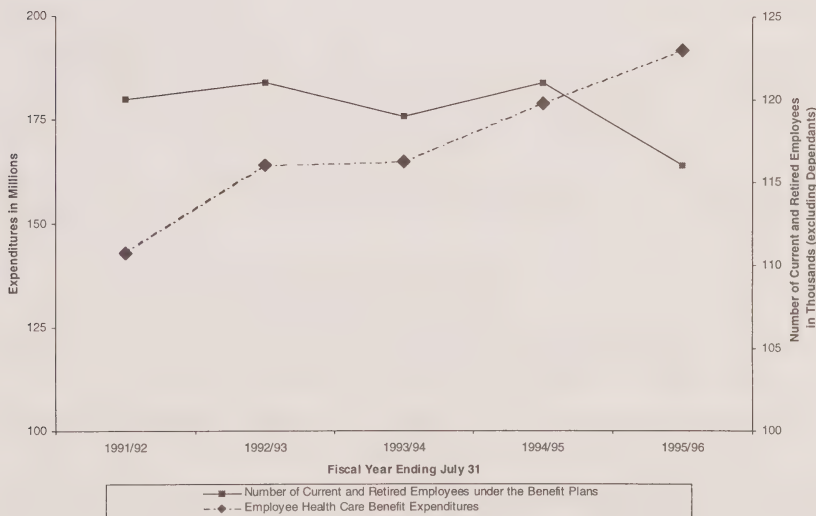
DETAILED AUDIT OBSERVATIONS

COST-CONTAINMENT STRATEGIES

All plan members and their eligible dependants are entitled to partial reimbursement for supplementary health and dental costs incurred. For instance, 90% of the cost of drugs is reimbursed while 40% to 85% of most dental costs is reimbursed. Current employees are also eligible for long-term disability protection whereby they can receive two thirds of their gross salary if they become totally disabled. Under the group life insurance plan, when employees die, the designated beneficiaries are entitled to a benefit of up to one year's salary while the beneficiaries of retired employees are entitled to a \$2,000 death benefit.

The cost of providing these benefits has increased from \$143 million to \$192 million or approximately 35% between 1992 and 1996. The following chart illustrates the annual growth in such benefits received by current and retired employees and their dependants since 1992.

Cost of Employee Health Care Benefits and Number of Eligible Employees



Source: Management Board Secretariat

However, the government is not alone in facing significant increases in employee health care costs. Our research, and the benefits consultant that we engaged, indicated that other large

employers had also experienced similar significant cost increases between 1992 and 1996. Based on our research and discussions with a number of organizations and our benefits consultant, it was apparent that most other large employers, including other provinces and the federal government, had recently implemented selected cost-containment strategies to control this rapid growth in benefit expenditures. For example, one province applied its provincial drug formulary and realized estimated savings of 8% to 10% of its drug costs. According to an MBS analysis, Ontario could save as much as \$3.8 million annually by restricting eligible drugs to those covered by the Ontario Drug Benefit Plan.

While the Ontario government has been considering a number of cost-containment options, only the retendering and renegotiation of carrier contracts had been fully implemented. In researching the various cost-containment measures and best practices that are being used in employee benefits health care management, we noted there are essentially two types of cost-containment strategies. The first type of strategy requires negotiation with employee unions before being undertaken, whereas the second type can be likely initiated without union approval or negotiation.

Cost-containment strategies that require negotiation with employee unions are generally those that seek to reduce benefits or increase the employees' share of the cost of such benefits. Our research indicated that employers need to recognize that in the short-term restricting health care benefits may be effective in capping costs; however, any potential changes need to be analyzed to ensure that they will not adversely affect the long-term health and productivity of their employees.

The following examples represent cost-containment strategies that would require negotiation with the employee unions.

- Excluding coverage for over-the-counter (OTC) drugs — At present if these drugs have been prescribed by a doctor, they are reimbursable even though they can be purchased without a prescription. MBS estimated that the elimination of OTC drugs from the benefit plan would save approximately \$2.6 million annually.
- Excluding benefits or reducing reimbursement levels — For example, reducing drug reimbursement from 90% to 75% or changing certain benefits from being eligible for coverage to being ineligible.
- Using a Preferred Provider Network — Negotiate a reduced drug dispensing fee and/or a maximum drug ingredient cost for widely used drugs with selected pharmacy chains. Employees would be encouraged to use these pharmacies, as only the reduced dispensing fee and/or maximum ingredient cost would be eligible for reimbursement.
- Requiring generic substitution — Brand name drugs would not be reimbursed if a generic substitution exists unless the prescription specifies "no substitution."

We noted that in July 1995 the Ministry prepared a paper on compensation within the Ontario Public Service that identified a number of containment measures. While the paper contained data on the projected savings of selected cost-containment strategies there was no documentation of the potential impact such changes could have on employees' health. MBS informed us that the potential impact of the proposed strategies was considered although it was not documented. MBS told us that some of these cost-containment measures were introduced at the bargaining table with the Ontario Public Service Employees Union (OPSEU) during negotia-

tions for a new contract in 1996, but they were not reflected in the resulting collective agreement.

Recommendation

To ensure that government decision-makers have appropriate information before the next round of union negotiations, the Management Board Secretariat, when updating its analysis of the financial impact of the various cost-containment options, should also document the effect such changes could have on the long-term health and productivity of their employees.

Ministry Response

Management Board Secretariat has traditionally analyzed costs and developed options for cost-saving/improvements in preparation for bargaining, and we will do so for the next round of bargaining in 1998. Appropriate staff resources will be committed to ensure analysis is comprehensive and complete and takes into consideration our new multiple bargaining agent environment.

The analysis will include impacts on employee health and productivity as has been past practice but this analysis will now be documented.

There are also a number of cost-containment strategies that focus on either reducing the demand for health care services or reducing costs by educating plan members to be smart consumers. Such measures lower costs without restricting the current level of benefits provided and therefore are not likely to require negotiation with employee unions. Examples of such cost-containment strategies are indicated below.

- Communication with employees — educate employees through benefit newsletters about the cost of benefits provided, changes in benefit plans and provide “smart shopper” health care advice.
- Positive enrolment — require employees to periodically confirm details of spousal insurance coverage and dependant eligibility information.
- Disability management procedures — more actively manage short-term and potential long-term disability situations.
- Competitive selection of carriers — periodically tender for carrier services to reduce administrative fees and enhance service levels provided by the carriers.
- Carrier performance agreements — ensure that carriers are contractually bound to pay claims accurately, meet performance standards and provide detailed information on claim costs.
- Carrier audits — periodically audit the carriers to assess whether claims are processed in accordance with the various plans.

MBS advised us that one reason only one of the above-noted cost-containment strategies had been fully implemented was because of the significant reduction in the number of staff manag-

ing employee benefits over the past six years. Specifically, the staff had been reduced from six employees to three. While we believe that MBS should more actively pursue these strategies, we acknowledge that, at least initially, additional investment in resources may be needed. However, we believe that there would be good payback from this investment.

Our specific observations and recommendations relating to the various cost-containment strategies that we believe warrant consideration by MBS are included in the remaining part of this report.

COMMUNICATION WITH EMPLOYEES

According to a recent survey conducted by Benefits Canada and a major benefits consulting firm, communication with employees was perceived as one of the most important cost-containment tools by the 203 responding organizations which, in total, had more than 570,000 employees. In addition, our benefits consultant advised us that employers are increasingly recognizing the importance of partnering with employees to reduce costs. The consultant indicated that communication with employees, especially in conjunction with other cost-containment strategies, can be an effective tool in educating employees about the need to work together to ensure the future affordability of the benefit plans, in motivating health care behavioural changes and in communicating plan changes.

Most of the organizations that we met with advised us that they are now regularly communicating with employees through periodic health care benefit newsletters which expressed two common themes. Firstly, employees were informed about the recent significant increases in the cost of providing health care benefits. Secondly, the newsletters stressed the need for the employees to help in controlling costs by being smart health care consumers. Included in these newsletters were the following examples:

- advising employees that the price of drug dispensing fees varied widely from \$2 to \$16 a prescription and providing a list of pharmacies with the lowest dispensing fees;
- explaining the significant savings that could result from substituting generic drugs for brand name drugs where acceptable to the health care provider; and
- including in each employee's newsletter, as one organization did, a statement of the annual cost of health claims paid on behalf of the employee.

As an example of the impact that increased communication with employees can have, our research indicated that one company had reduced the annual increase in its drug costs from 10% to 15% per year to less than 3% per year by providing its employees with information to give to their physicians and pharmacists regarding acceptable generic drug substitutions.

We noted that other than providing employees with notices of changes to their benefit premium rates, MBS had not provided any information to government employees in the past four years advising them of the recent significant increase in the cost of providing health care benefits, nor did MBS request their assistance in controlling costs by providing them with any information for making more cost-effective health care decisions.

Recommendation

To help control rapidly escalating health care benefit costs, the Management Board Secretariat should communicate the mutual benefits of making more cost-effective health care decisions and provide employees with information about becoming smart health care consumers.

Ministry Response

Management Board Secretariat is developing an overall benefits communication strategy based on the "smart shopper" approach to benefits. As a first step, Management Board Secretariat has begun a series of monthly benefit articles in topical [the government's employee newsletter] called "Focus on Benefits." The first article appeared in the April 25, 1997 issue. The series is aimed at the responsible use of benefits, the cost of benefits and basic benefit entitlements.

Other elements will include direct employee communication by way of pay inserts, as appropriate, and the intranet. To the extent possible, the strategy will rely on joint employer/employee group communication messages.

POSITIVE ENROLMENT

When a new employee enrolls in the various benefit plans, the only information that is provided to the carriers is whether or not the employee has family coverage. Information on eligible dependants is only entered into the carriers' claims system when the first claim for a particular dependant is submitted.

When claims relate to an employee's spouse, the employee should indicate on the claim form whether the spouse also has employer-provided benefits. If so, the spouse's employer is primarily responsible for paying the spouse's claims. When both spouses have coverage provided by their employers, claims for dependent children are primarily paid for by the employer of the spouse whose birthday comes first in the calendar year.

Accordingly, it is critical that the government's insurance carriers have reliable information regarding the employee's dependants and whether the spouse has other benefits coverage. Otherwise, the risk exists that employees could submit claims for their spouses and dependants that should have been submitted to their spouses' employers or may have already been paid for under their spouses' plans.

To minimize this risk, there is a recent increasing trend by employers to move to a system called positive enrolment. Under positive enrolment the employer periodically requests employees to provide information on dependants and the details of any spousal insurance coverage.

During our work at the two carriers, we reviewed a sample of 92 supplementary health and dental claims for costs incurred by either employees' spouses or their dependants. In 24% of the claims that we examined, the claimants did not complete that part of the claim form which asked whether a spouse had other benefits coverage, yet the claims were still processed by the carriers since the claimant had not previously indicated any spousal coverage. Consequently,

the risk existed that the government could have paid claims in cases where the spouse was employed and had coverage. Moreover, when dependent children's claims were included and the spouse's birth date was earlier in the year than the government employee, the risk also exists that the claims should have been paid primarily by the spouse's employer and not the government.

MBS informed us that both carriers process claims regardless of whether the question on spousal coverage is fully answered by the claimant. However, one carrier restricts processing in these circumstances to claims less than \$200. The other carrier informed us that many of their other planholders do require the section of the claim form on spousal coverage to be completed or the claim would not be processed.

Our benefits consultant informed us that the related annual savings due to positive enrolment can be in the range of 2% to 8% of the supplementary health and dental costs. Based on current expenditure levels this could result in annual savings in the range of \$1.9 million to \$7.5 million excluding any system design and ongoing costs associated with the implementation of positive enrolment.

Additionally, two of the organizations that we met with had significantly fewer employees than the Ontario government and they informed us that they had recently implemented positive enrolment and had achieved significant savings or were expecting to do so. One organization estimated savings of \$500,000 in the first year while the other expected savings of up to \$2 million per year. Both organizations had advised their unions about the introduction of positive enrolment, even though their approval was not required.

We noted that MBS had never implemented positive enrolment. MBS indicated that after the installation of a corporate human resources information system is completed in 1998, positive enrolment will be more feasible and will be actively considered.

Recommendation

To help ensure that supplementary health and dental claims are only paid for eligible recipients, the Management Board Secretariat should implement positive enrolment, whereby employees are periodically required to provide detailed information regarding spousal insurance coverage and the eligibility of family members.

Ministry Response

Management Board Secretariat agrees that we need to be examining new ways of disciplining the cost of benefits. The government is currently preparing to implement a new corporate human resources information system and we agree that positive enrolment should be considered in putting this system in place across the Ontario Public Service.

A cost/benefit analysis will be undertaken to confirm the savings potential of positive enrolment as compared with the development and implementation costs to the employer.

MANAGEMENT OF LONG-TERM DISABILITY

The cost of long-term disability (LTD) claims has risen by approximately 40% from \$34 million in 1992 to \$48 million in 1996. Employees submitting proof that they have been totally disabled for more than six months are eligible to receive disability income protection benefits. The monthly benefit payment equals 66 2/3% of the employee's gross salary. For the first six months employees are off work, they are covered by the government's short-term sickness plan which provides six days at 100% pay and the balance at 75%.

Two carriers adjudicate and manage LTD claims for the government. Employees initially submit the required LTD application and medical documentation from their physicians directly to the carriers. Additional medical information is often requested by the carrier from the employee's physician and the employee may be required to undergo an independent medical examination. The carrier's medical experts review this information and either approve or deny the claim. If denied, the employee has the right to appeal the decision.

Our research and discussions with other organizations as well as with our benefits consultant indicated that early intervention is critical in order to succeed in having employees return to work quickly. Such intervention reduces not only short-term absences of less than six months but also potential long-term disability claims. Studies have shown that only 10% to 15% of disabled employees off work for more than one year ever successfully return to work.

Although the government has been researching and piloting various options over the past two years, MBS has not yet implemented a coordinated early intervention program to assist employees at an early stage of their absence and thus reduce the likelihood of a long-term disability claim. MBS informed us that in the meantime individual ministries continue to manage their short-term sickness programs in varying ways, with medical documentation required for absences in excess of five consecutive days as per the terms of the collective agreement with OPSEU.

Several large organizations that had recently instituted early intervention programs informed us that they had contacted absent employees after as little time as a week to discuss the details of their absences and had asked what assistance they could offer. The organizations or their carriers could also request detailed medical and other information from the employee well in advance of when the employee was eligible to file a long-term disability claim. One organization advised us that their LTD management program had resulted in significantly reduced claims.

Rehabilitation such as physiotherapy is another area critical to assisting disabled employees to return to work. Our research and discussions with other organizations indicated that employees are normally required to participate in rehabilitation if a carrier has identified it as being necessary. However, MBS informed us that collective agreements with the bargaining agents do not require an employee to accept rehabilitation to receive long-term income protection benefits. Our review of a sample of LTD claims at the two carriers revealed that some claimants of one carrier had, at one point, declined to participate in rehabilitation programs. In these instances, the carrier continues to monitor and to assess the claimant's condition.

Recommendations

To help reduce short-term absences and identify potential long-term disability claims at an earlier stage, the Management Board Secretariat should implement an early intervention program.

Additionally, the Management Board Secretariat should endeavour to change its long-term disability plan to require disabled employees to participate in rehabilitation programs recommended by its carriers.

Ministry Response

The government agrees and is in the process of implementing an early intervention program across the Ontario Public Service. This is being done on the basis of a successful 1996 pilot project in the Ministry of the Solicitor General and Correctional Services that involved ministry managers and the insurance carriers.

Management Board Secretariat is aware of very recent initiatives by some employers to engage third party assistance at the earliest stages. We plan to compare the results of these initiatives with the results of our new corporate program.

At the same time, a review by Management Board Secretariat and the carriers of the steps to be taken before long-term insurance benefits are provided will assist ministries and claimants in facilitating an earlier return to work. This review will include access to rehabilitation programs and claimants' participation in such programs.

Requiring disabled employees to participate in rehabilitation programs recommended by carriers requires negotiated changes to the collective agreements with employee groups.

COMPETITIVE SELECTION OF CARRIERS

As the employee benefit plans are self-insured, the government reimburses its insurance carriers for the actual benefit claims paid to employees and also pays the carriers an administrative fee for claims processing and adjudication services. For the carriers' reporting year ended July 31, 1996, the government paid its three carriers administrative fees of approximately \$6.5 million, which represented about 3.6% of the \$179 million in benefits paid to employees, excluding administrative fees, premium taxes and interest.

For a number of years up to 1994, MBS had used the same insurance carriers to manage the various benefit plans. However, in 1995 MBS tendered the dental plan for unionized employees, and in 1996 all non-union plans were also tendered. All proposals were properly evaluated against predetermined criteria which included administrative costs, service levels and other key performance factors. In 1996 MBS entered into negotiations with its third carrier which administers all union plans except dental care. We were informed that MBS was successful in negotiating a significant reduction of the annual administrative fee paid to this carrier.

As a result of the recent retendering and renegotiation of the carrier contracts, the Ministry anticipates savings in the administrative fees paid to its three carriers of about \$2 million annually.

CARRIER PERFORMANCE STANDARDS AGREEMENT

The first step after the completion of an insurance carrier tendering process is the negotiation of a contract with the successful carrier to define the components of the benefit plans, including eligibility criteria, as well as administrative fees. In many cases the next step is the negotiation of a performance standards agreement with the carrier. Such an agreement allows the employer to hold the carrier accountable for the administration of the plan and typically includes performance standards such as error ratios and claims processing turnaround times. Often financial rewards and penalties are included in the performance standards agreement to reward or penalize the carrier depending on the carrier's actual performance. Our research and discussions with other large private and public sector employers indicated that many organizations had negotiated performance standards agreements with their carriers.

We reviewed the performance standards agreements that MBS has with its three carriers and made the following observations.

- At the time of our audit MBS was finalizing the contracts with the carrier which was awarded the contract in late 1996 to administer all non-union plans. We were informed that the Ministry plans to negotiate performance standards agreements with this carrier.
- MBS does not have performance standards agreements in place for either the carrier which was awarded the union dental care contract in mid-1995, or for the carrier that administers all union plans except dental. MBS advised us that it is in the process of negotiating such agreements with these other carriers.

We will follow up on MBS success in implementing performance standards agreements with its carriers.

MONITORING CARRIER CLAIMS PROCESSING ACTIVITIES

Given the fiduciary nature of insurance carriers, it is not unreasonable for employers to rely on their carriers to process claims in accordance with the terms of the benefit plans. Nevertheless, prudent employers also obtain assurance that their carriers process health care benefit claims accurately.

According to the benefits consultant we engaged, the only way to accurately assess whether a carrier is processing claims in accordance with the terms of the benefit plans is by auditing a sample of claims processed by the carrier. Our consultant also indicated that periodic audits help in determining whether carriers are adhering to the performance standards agreements. Additionally, our discussions with other organizations indicated that it is common practice to periodically conduct such audits. One of the organizations informed us that its carrier is audited because "it is our money they are spending." The three provinces that we contacted also indicated that they conduct audits or test-check carrier claims processing.

MBS had never audited a sample of claims at its carriers or evaluated the adequacy of claims processing controls to ensure that only valid claims were processed. MBS advised us that it relies on the carriers' internal auditors to ensure compliance with the contracts and also to receive some indication of the accuracy of the claims processing through employee complaints

of rejected claims. However, MBS had neither received any reports from the carriers' internal auditors nor any information from the carriers such as error ratios and statistics related to the coordination of benefits or the number of claims disallowed.

As MBS had never audited its carriers, we conducted some limited audit work at two of the three carriers. Although our audit did not include an assessment of the effectiveness of the carriers' rehabilitation departments or claim monitoring procedures, for a small sample of long-term disability (LTD) claims we checked the calculation of the disability payments and reviewed the carriers' ongoing monitoring of the claimants' disabilities. We also tested a small sample of supplementary health and dental claims.

As a result of the samples that we tested at the two carriers, we made the following observations.

- One carrier was ensuring that eligible claimants applied for Canada Pension Plan (CPP) disability benefits and was reducing the amount of LTD benefit payments accordingly. However, at the other carrier we found that 20% of the LTD claims examined appeared to be eligible for a CPP disability benefit payment, or a larger CPP benefit payment due to the birth of an additional dependant. In these cases CPP payments would reduce the amount of LTD benefit paid by the carrier on behalf of MBS. We estimated that the carrier may be able to recover on the government's behalf as much as \$65,000 in CPP benefits relating to these claimants.
- When LTD claimants earn employment income from part-time work, the LTD benefits are to be reduced by such income. In 30% of the LTD files that we reviewed at one carrier, the claimant had earned income but the LTD benefits had not been reduced accordingly. We estimated that the carrier had overpaid these claimants by approximately \$5,000.
- To ensure that claimants continue to be eligible for LTD benefits, the carriers are responsible for periodically requesting and reviewing updated medical information regarding the claimants' disabilities. We reviewed a sample of LTD claims and noted that the carriers were periodically requesting this information. We also noted that the rehabilitation needs of LTD claimants were being assessed by the carriers' rehabilitation departments.
- There is an inconsistency in the way that unsigned supplementary health and dental claim forms are handled by the two carriers. We noted that in 7% of these claims that we reviewed at one carrier, the claimant had not signed the claim form certifying that the information provided was correct. This carrier informed us that it processed unsigned claim forms as long as the total claim was under \$200. At the other carrier, we found that all claim forms that we reviewed were signed by the claimants. This carrier returns all unsigned claim forms to the employees for signature because the absence of a signature on the claim form increases the likelihood of an ineligible claim.

Based on the results of the samples that we tested, we believe that periodic carrier audits will offer good payback including the identification of inconsistencies in claims processing. In our discussions with a number of organizations, we were informed that some of the organizations have their internal auditors conduct an audit of their carriers, while others engage benefits consulting firms to undertake audits on their behalf.

Recommendation

In order to assess whether the carriers are processing claims in accordance with the employee benefit plans, are adhering to performance standards agreements and are calculating long-term disability benefit payments accurately, the Management Board Secretariat should periodically obtain appropriate audit assurance.

Ministry Response

Management Board Secretariat will obtain periodic audits of the carriers and this is reflected in the Management Board Secretariat 1997/98 audit plan. The audit will ensure that claims are paid in accordance with the benefit plan provisions, including the calculation of long-term income protection benefits, and it will measure contract compliance against the standards set in the underwriting agreements.

3.11

MEASURING AND REPORTING RESULTS

The Compensation Services Branch of MBS is responsible for overseeing the management of the health care benefit plans. The Branch informed us that its objective was "to administer the corporate benefits policy, to develop cost-effective benefits program options and to contract for the administration of benefits programs at 'best available in the market place' cost levels." However, this objective was not formally documented in any Branch, Division or corporate business plan or document.

The Branch had developed several mostly qualitative indicators for measuring the achievement of its objective. Having also more quantifiable indicators that demonstrate how cost effective the Branch is in managing health care benefit expenditures will be especially important if the Branch begins to evaluate and implement selected cost-containment strategies. These quantifiable indicators could include:

- the comparison of annual benefit costs per employee by plan perhaps compared against benchmark data from other provinces and large employers;
- the timeliness and accuracy of carrier claims processing, based on both the data provided by the carriers and the results of carrier audits if implemented; and
- the number of claimants on long-term disability broken down by the length of time on disability, for example, as less than two years or more than two years.

We also reviewed the MBS business plan and noted that the management of health care benefits expenditures was not included. As the cost of these benefits is approaching \$200 million annually and is escalating at a rapid pace, an indicator tracking the overall rate of per capita growth could be used as a high level indicator in the MBS business plan.

Recommendation

The Management Board Secretariat should clearly define its objective relating to the management of employee health care benefit plans and identify appropriate performance indicators to measure and report on success in achieving the objective.

Ministry Response

Objective and quantifiable performance indicators related to the management of employee health care benefits will be developed and reflected in the next Human Resources Division business plan. As well, Management Board Secretariat will consider incorporating performance indicators in the Ministry Business Plan relating to employee health care benefits.

The activities associated with realizing these measures will be incorporated into the performance contracts of the senior managers accountable for benefits policy and programming.

Results reporting will occur through performance evaluation and reporting on the results of the Business Plan.

ONTARIO HOUSING CORPORATION AND METROPOLITAN TORONTO HOUSING AUTHORITY

Capital Asset Management

3.12

The Ontario Housing Corporation (OHC) is an agency of the Ministry of Municipal Affairs and Housing and is established under the *Ontario Housing Corporation Act*. It is funded through rental income and subsidies from the provincial and federal governments. Its mandate is to provide public housing, manage its portfolio and carry out social programs as directed by the Minister in consultation with Canada Mortgage and Housing Corporation.

OHC owns approximately 84,000 rent-geared-to-income housing units which are managed by 54 local housing authorities (LHAs) in seven regions. These units provide housing for about 250,000 tenants in 310 communities. Each LHA is governed by a board and operates under the terms of a management agreement with OHC. LHAs receive administrative support from seven regional offices and a head office secretariat of the Ministry.

The Metropolitan Toronto Housing Authority (MTHA) is the largest of the local housing authorities, managing about 29,000 units which provide housing for nearly 110,000 residents in Metro Toronto.

Housing is provided to low income households based on need. These households include families, senior citizens and single persons. While some single-family dwellings are provided, most accommodation consists of townhouses or apartment buildings. Eligible tenants pay rent based on income rather than the size or type of housing provided.

Over the last four years, OHC's property operating expenditures have been reduced by about 13%. This reduction includes a 28% drop in expenditures for capital repairs and a 7% drop in recurring property operating expenditures. Capital repair expenditures are generally for the replacement or significant betterment of a building or its elements whereas recurring expenditures are for ongoing labour, materials and services that are required each year. Property operating expenditures for the year ended December 31, 1996 are summarized below.

1996 Property Operating Expenditures
(excluding municipal taxes and depreciation on properties)

	\$ Millions			%
	MTHA	Other LHAs	Total OHC	
Labour and related costs	57.6	48.9	106.5	28
Utilities	39.2	56.6	95.8	25
Materials and services				
- Capital repairs	33.0	47.7	80.7	21
- Recurring repairs	23.5	35.0	58.5	15
LHA administrative overhead*	12.5	28.3	40.8	11
	165.8	216.5	382.3	100
Number of units	29,400	54,600	84,000	
Number of rentable rooms	131,700	225,100	356,800	

* Includes ministry initiatives and chargebacks for support services. Also, ministry chargebacks totalling \$16.8 million were allocated between administrative overhead and labour and related costs.

Source: Ontario Housing Corporation

OBJECTIVES AND SCOPE

Our audit objectives were to assess whether OHC had in place the systems and procedures to ensure that its rental properties were repaired and maintained economically, efficiently and effectively and whether it complied with relevant legislation, corporate policies and related results reporting requirements.

This assessment included examining the relevant systems, policies and procedures at corporate offices and several LHAs, including MTHA, and surveying most others. It also included a determination of MTHA's progress in addressing pertinent recommendations and issues arising from a major review of its operations conducted by outside consultants in 1994 at the request of the then-Minister of Housing.

The Audit Services Branch of the Ministry of Municipal Affairs and Housing provides internal audit services to OHC, primarily through operational and compliance audits of LHAs. While the volume of such work has declined in recent years, its recent reports, documentation and knowledge of OHC operations helped us considerably when planning the nature and extent of our audit. We also reviewed recent reports prepared by MTHA's internal auditor when planning our work in that LHA. Recent audits of MTHA's maintenance activities were particularly helpful in reducing the extent of our work in that area.

OVERALL AUDIT OBSERVATIONS

(EXCLUDING METROPOLITAN TORONTO HOUSING AUTHORITY)

For the two-year period ending February 28, 1997, the board of MTHA reported directly to the Minister of Municipal Affairs and Housing even though it was still an agent of OHC. Although our observations and recommendations regarding MTHA are similar to those for OHC generally, MTHA has been included in a separate part of this section in view of its unique relationship to the Minister during our audit.

OHC has made recent improvements to better ensure that capital projects are identified and approved based on both corporate and local priorities and that those projects with the highest priorities are undertaken first. However, to reliably identify and prioritize future capital requirements, OHC needs to further improve the quality of building-condition assessments and of estimates of costs for needed repairs. It also needs more timely reporting to LHA and OHC boards on the status of capital projects, and, in particular, on those capital or ongoing repair projects involving priority health and safety or legislated compliance work, such as asbestos abatement.

OHC has reduced property operating expenditures in recent years. However, it could achieve further savings of several million dollars through benchmarking and sharing best practices among LHAs, particularly with respect to managing utility and maintenance labour costs.

OHC also needs to ensure ongoing compliance with *Ontario Fire Code* requirements through periodic, independent inspections of all properties and reporting to the respective LHA boards on the results of those inspections for any necessary action.

Overall Corporation Response

The Ontario Housing Corporation began a restructuring project last year with the goals of improving governance and accountability while reducing the system of 54 local housing authorities to 20 local housing councils. The Ontario Housing Corporation had initiated a process that would have included the need for business plans, consideration of alternative service delivery, re-engineering, restructuring and benchmarking to meet the overall goals of improved governance and customer satisfaction within a framework of cost reduction and efficiency.

As a result of the government announcement on devolution in January 1997, the implementation of this restructuring has been put on hold. However, the Ontario Housing Corporation continues to work on improving the existing system, incorporating many of the activities which would have taken place had restructuring proceeded.

DETAILED AUDIT OBSERVATIONS

CAPITAL PLANNING AND BUDGETING

In 1994, in recognition of the need for better information about the nature and condition of OHC's many properties, the OHC board approved a Comprehensive Asset Management Program. The Program was intended to determine the general condition of housing stock; forecast long-term capital needs; match inventory stock to client needs; avoid obsolescence; and generally better manage the housing portfolio.

Since then a basic microcomputer database, the Interim Asset Management System, has been developed to capture each LHA's building profile and capital repair assessment information, including five-year capital expenditure projections. Much of the housing portfolio information on this system was gathered by LHA staff during a six-week period in 1995. Efforts to gather the information necessary to meet other program objectives, such as matching housing inventory to client needs and identifying properties that should undergo major rehabilitation or sale rather than further repairs, were suspended pending plans for reorganizing OHC.

Later in the same year, also as part of the Comprehensive Asset Management Program, outside consultants were hired to conduct building audits at several buildings in various LHAs. These audits identified a need for assistance or training for LHA staff in both problem identification, particularly structural, mechanical and electrical problems, and cost estimation. There were several significant differences between the consultants' recommended priorities and related cost estimates of capital work required and those made by OHC staff earlier that year. Sufficient training and technical assistance had not yet been provided. Therefore, we were concerned that existing building assessment information and estimates of the costs of future capital repairs may not be reliable. Reliable estimates of future capital requirements become even more important as the government considers the transfer of social housing delivery to the municipalities.

Early in 1996 OHC took several steps to significantly improve its capital planning and budgeting process for 1997 and subsequent years. To improve consistency and reliability among LHAs for determining capital priorities, OHC issued several building guidelines to LHAs, including the following:

- building standard guidelines to define an acceptable level of performance for each building element such as structure, interiors and exteriors, elevators and life-safety systems;
- life-expectancy guidelines to define the average useful life span of various building elements; and
- capital works priorities to help classify and rank projects into five categories: life safety; structured integrity; legislative requirements; policies and directives; and cost-saving initiatives.

In order to ensure priorities are being established on a province-wide basis, all capital expenditures proposed by LHAs must be reviewed and ranked by the Ministry's regional offices and by a provincial review committee.

For the 1996 capital budget, 80% of available funds was allocated to regions, as in prior years, and 20% was withheld to be allocated corporately, based on the new capital works priorities

and guidelines. As a result LHAs were completing major high-priority projects such as recent *Ontario Fire Code* retrofit requirements.

Recommendation

To improve the capacity of local housing authorities to reliably estimate future capital and maintenance requirements and to prepare long-term capital budgets, Ontario Housing Corporation should:

- provide technical expertise and/or training to staff in these areas as necessary; and
- establish plans to update its asset management system and capital expenditure forecasts with improved building assessment information.

Corporation Response

Ontario Housing Corporation agrees with the recommendation and recognizes the importance of knowledge, training and consistency in implementing a new asset management system. Ontario Housing Corporation's plan was to implement the program over a period of time and in stages. It also planned to continually review and improve upon the process, and to improve upon the quality of the information obtained. It retained independent consultants to provide an assessment of some buildings to identify areas of potential weakness, training requirements and to assess the reliability of the local housing authority information. These building audits did identify a need for further training of local housing authority staff involved in the building assessment/costing activities.

Ontario Housing Corporation has completed a second round of training of local housing authority staff involved in assessing the building conditions, and in estimating the cost and life cycles of the repairs. The local housing authorities have been updating the existing building condition assessments and capital expenditure forecasts for the last few months, to update them by the end of May 1997. This will provide Ontario Housing Corporation with updated building assessment and costing information after a full year of actual use in the field. It will be used in the 1998 capital budget cycle.

This is not the end of the quality assurance process. Ontario Housing Corporation will begin a project assessment review in June 1997 by professional outside consultants to review and verify the quality of the information shown on the project assessment capital forecast forms. This will be done in selected housing authorities in several regions, including Metropolitan Toronto Housing Authority. Ontario Housing Corporation will continue to assess the need for training and process adjustments.

ASBESTOS MANAGEMENT

The majority of OHC buildings were constructed in the 1950s and 1960s when products with asbestos were used in construction. In 1985 Ontario Regulation 654/85 (now known as Ontario Regulation 838/90, *Designated Substance—Asbestos on Construction Projects and in Buildings and Repair Operations*), under the *Occupational Health and Safety Act*, came into effect requiring building owners to maintain records of the locations of material containing loose asbestos and to take the action necessary to repair or remove any materials where asbestos might be exposed. Regulation 347/90 under the *Environmental Protection Act* governs the disposal of asbestos materials.

In 1993 OHC established an asbestos management policy to ensure compliance with occupational health and safety and environmental regulations regarding asbestos. The policy is intended to minimize the possibility of exposure of OHC residents, staff and workers employed by outside contractors to airborne asbestos fibres. This is to be achieved by identifying locations of potential sources of friable asbestos in building components.

We could not determine whether two LHAs we visited had complied with the Regulation because they had not conducted asbestos surveys to determine whether material containing friable asbestos was present in their buildings. Such surveys are a requirement of OHC's asbestos management policy. Our survey of LHAs revealed that several others also had yet to do surveys of asbestos materials.

A formal asbestos survey conducted by a large LHA in 1995 identified materials containing friable asbestos in several locations. While some action had been taken to correct the problems and comply with the Regulation and policy, not all necessary work had been completed at the time of our visit in November 1996. We were informed that the LHA had subsequently issued work orders to repair or remove the remaining loose asbestos.

Recommendation

The Ontario Housing Corporation should:

- remind local housing authorities of their responsibility to manage asbestos in accordance with legislation and corporate policies; and
- ensure that the status of asbestos surveys and actions taken to rectify noted deficiencies is reported periodically to each local housing authority board and that these boards in turn provide assurance to the board of Ontario Housing Corporation that their responsibilities have been met.

Corporation Response

Ontario Housing Corporation agrees with the recommendation. The General Manager of Ontario Housing Corporation issued a memo to all local housing authorities reminding them of the corporate policy on the handling of asbestos in their buildings, and the requirement to have an asbestos management program in place for the handling of repairs that involve asbestos content in building components. This also requires the local housing authorities to report periodically to their boards on the handling of any asbestos through their asset management program.

MANAGING UTILITY COSTS AND ENERGY USE

In 1996 OHC's costs for utilities such as electricity, fuel and water totalled over \$56 million, or about 25% of its property operating costs.

Up to 1994 OHC had been making efforts to improve energy conservation and reduce utility costs. For example, about \$8 million was spent in 1993 to complete energy retrofit projects affecting about 9,000 units. Also, twice a year LHAs were given comparative data on the energy consumption and costs for various types of buildings throughout OHC's portfolio to help them identify savings opportunities.

Our reviews of LHAs generally indicated that the LHAs that had undertaken retrofit projects and that were actively continuing initiatives to conserve energy were incurring lower utility costs per rentable room. For example, 1996 utility costs for the 10 LHAs in the southwestern region averaged just \$223 per rentable room. This level of expenditure was the lowest among all regions and over 10% below the overall corporate average of \$249 per rentable room. While factors such as colder climates and higher unit densities or utility rates may prevent other regions and LHAs from achieving that level of expenditure and energy consumption per rentable room, further savings are achievable from identifying and sharing better energy conservation initiatives such as those in use in southwestern region. OHC management believes that a target rate of \$245 per rentable room should be achievable. If that rate is achieved, OHC would save about \$2 million annually.

For example, there were significant variances in utility costs even among LHAs that are similar in size and located in the same region. Two LHAs in one region had utility costs per rentable room that differed by as much as 200% even though they had the same number and type of units.

Many LHAs we surveyed have units that are individually metered for utilities including gas, hydro and water. While several LHAs pay all the utility costs directly, some LHAs have the tenants in individually metered units pay some or all of the utilities in exchange for a rent reduction. These LHAs believe that tenants who pay for their use of utilities are more likely to conserve energy. In addition, some LHAs that have adopted a full user-pay system for all their individually metered units indicated that they achieved net savings of about \$50 to \$100 per rentable room annually.

There are several LHAs that have many individually metered units that are not on a user-pay system, and we estimated that they could save over \$2 million annually from wider adoption of a user-pay policy.

Although energy conservation was a stated corporate priority for OHC in 1996, less than \$200,000 was invested in energy conservation projects that year because of other priorities. While several energy-saving projects were identified and ranked for funding in the 1997 capital budget, none could be funded because all of the available capital funds were required to undertake projects which were ranked in the four higher priority categories.

Recommendation

To reduce costs and encourage energy conservation, Ontario Housing Corporation should:

- ensure that best practices in energy conservation initiatives already adopted by some local housing authorities are periodically summarized and shared among the rest;
- reinstate periodic comparisons of local housing authority energy consumption costs to identify buildings with opportunities for savings; and
- examine the feasibility of expanding user payment for utilities related to individually metered units.

Corporation Response

Ontario Housing Corporation agrees with the recommendation.

Ontario Housing Corporation has done a lot of work over the years in energy management and efficiency activities. There are various publications regarding energy efficiency and local housing authority energy efficiency best practices that have been distributed to local housing authorities over the years. Ontario Housing Corporation is in the process of updating these publications in regard to new products, materials and energy efficient practices. It is also attempting to prepare a report from its Energy Management Information System; however, it has run into technical difficulties with the program.

At the Ontario Housing Corporation board meeting in March 1997, staff were instructed to develop a system of energy-efficiency measures to be used to identify priority, cost-effective initiatives, and to assist local authorities in taking advantage of these systems.

Life safety, structural integrity and legislative requirements have already been established as priority items. The Ontario Housing Corporation board is attempting to resolve policy issues of allocating funds to cost efficiencies instead of necessary repairs.

When buildings were first constructed, local municipal utilities had variations in requirements for individual and bulk metering resulting in Ontario Housing Corporation having a mix of individual and bulk metering in its portfolio. A user-pay policy will not result in any savings to the government as a whole for those units occupied by tenants on social assistance because these tenants are reimbursed for the costs of utilities they pay directly to the service provider, up to a cap. A user-pay policy will also impact on low income employed tenants who would be compelled to pay more for utilities under such a policy, thereby reducing their ability to pay for basic essentials.

The impact of the pending transfer of social housing to municipalities on Ontario Housing Corporation's energy saving initiatives is still unknown at this time.

MAINTENANCE MANAGEMENT

Expenditures for recurring maintenance were approximately \$59 million in 1996 or about \$253 per rentable room. Materials and services amounted to about \$35 million (59%) and labour costs totalled about \$24 million (41%).

Several factors have hindered efforts to measure and assess the performance of recurring maintenance activities conducted by LHAs, as the details below illustrate.

- OHC's benchmarking project begun in 1995 as part of a major restructuring effort was suspended in late 1996 along with the restructuring plans.
- LHAs have not established standards or systems to track the relative workloads and productivity of their maintenance staff.
- Differences in the age and type of buildings and equipment LHAs must maintain significantly influence maintenance costs and may distort comparisons among LHAs.

However, one large LHA we visited was making efforts to measure the efficiency and productivity of its maintenance staff and to determine whether the work was fairly distributed among its area offices. It had designed a system to capture and report for each area office:

- the total number of work orders completed, total time taken and any backlogs; and
- details of the types of work orders and the time taken to complete each one.

Further analysis of the time taken to complete similar jobs is to be used to establish reasonable standards and benchmarks for the time required to complete routine maintenance tasks and thereby facilitate better control of staff productivity at that LHA.

Our LHA visits and surveys found few maintenance or repair backlogs in the majority of small- and medium-sized LHAs. These LHAs employ custodians to handle routine maintenance work arising from tenant requests and had established service expectations for responding to these requests.

In recent years, OHC has encouraged LHAs to implement cost-saving initiatives. For example, LHAs we reviewed have been achieving savings primarily through reducing staff and making better use of existing staff. Several LHAs have saved money by using in-house staff rather than outside contractors to do routine cleaning, repairs, and furnace inspection and maintenance.

However, without effective standards or benchmarks with which to assess maintenance costs, neither OHC nor LHAs can demonstrate the efficiency of maintenance services. In addition, while tenant surveys provide useful information on satisfaction with the maintenance services provided, the lack of expert, periodic assessments of building conditions limits the ability of LHAs to monitor maintenance quality and the impact of cost-saving initiatives on building conditions and future capital requirements.

Recommendation

To better ensure that maintenance services are delivered efficiently and effectively, Ontario Housing Corporation should:

- resume its benchmarking project and make use of existing local housing authority efforts to develop standards and reduce the costs for various maintenance activities;
- collect and share local housing authority cost-saving initiatives among local housing authorities; and
- require local housing authorities to use periodic expert inspections of buildings to assess the quality of maintenance services and to report the results and any recommended actions to their boards for follow-up.

Corporation Response

Ontario Housing Corporation agrees with the recommendation.

Ontario Housing Corporation is resuming its benchmarking project and will make use of existing local housing authority efforts to develop standards and reduce costs for various maintenance activities. This project was initially delayed by instructions from the Ministry on restructuring after changing government direction.

Ontario Housing Corporation has a bulletin called the "The OHC Manuals Bulletin" which was established in May 1996 to provide policy clarification to local housing authorities and to share best practices among the local housing authorities.

Ontario Housing Corporation recognizes the importance of ensuring proper maintenance of its buildings to minimize capital expenditures in the future. Ontario Housing Corporation will be exploring various ways of assessing building maintenance quality and costs in the future.

FIRE CODE COMPLIANCE

OHC has developed a *Fire Safety Plan Manual* and fire logbook to help ensure that all LHAs are aware of their responsibilities under the *Ontario Fire Code* and that they record their efforts to comply with the *Code*. The LHAs must ensure that all buildings are in compliance with *Ontario Fire Code* Regulations, which require proper maintenance of fire protection systems and equipment and adequate documentation of all tests and inspections. During our visits to LHAs, we noted several instances where the fire logbooks had not been properly maintained. We were therefore unable to determine whether the required tests and inspections had been done.

The *Ontario Fire Code* requires fire drills to be conducted every three months in high-rise buildings and every twelve months in low-rise buildings. During our field visits we noted that the required fire drills were not being conducted by some LHAs.

Recommendation

To ensure that local housing authorities are complying with the *Ontario Fire Code*, Ontario Housing Corporation should require all local housing authorities to conduct independent inspections of their buildings for compliance with corporate policy and *Ontario Fire Code* requirements at least annually and to report the results of these inspections to their respective boards for any necessary action.

Corporation Response

The General Manager of Ontario Housing Corporation will require that all local housing authorities inform their local boards annually, that they have:

- *completed the Inspection, Maintenance and Fire Drills requirements under the Ontario Building Code 3.2.6 and the Ontario Fire Code 2.8.3.2 (1) in all buildings;*
- *arranged for an annual, independent inspection of their buildings to ensure that corporate policy as well as Building and Fire Code requirements are met; and*
- *reported on these results/findings to their respective boards with copies to Ontario Housing Corporation.*

Ontario Housing Corporation supports the need for independent reviews but will avoid any duplication of effort between this work and the local fire department(s).

OVERALL AUDIT OBSERVATIONS (METROPOLITAN TORONTO HOUSING AUTHORITY)

Substantial progress has been made in addressing concerns raised by a special review of Metropolitan Toronto Housing Authority (MTHA) operations conducted by outside consultants in 1994. A summary of the more significant of these concerns and the status of actions taken to address them appears in the Appendix.

While important structural changes and cost reductions had been implemented at the time of our audit in late 1996 and early 1997, much of their effect will only be seen later in 1997 and subsequent years. As well, several other significant changes are being implemented in 1997, the impact of which will not be evident until 1998 and beyond. These changes include implementing new financial and property management information systems, and establishing performance management and benchmarking processes for managing staff and for reporting on performance.

Our audit revealed that further action is required to address weaknesses in building condition assessment information, in reporting on the status of priority projects such as *Ontario Fire*

Code compliance work and asbestos management, and in improving the quality of maintenance services.

We also noted the potential for further savings of several million dollars through increased focus on managing utility costs and energy use and achieving private management company benchmarks for maintenance costs.

DETAILED AUDIT OBSERVATIONS

CAPITAL PLANNING AND BUDGETING

Aging buildings and continuing restraint on maintenance expenditures make it increasingly important to have a well-designed asset management program to ensure continuing safe, healthy and acceptable accommodation at reasonable cost. An effective program includes having reliable information on the current condition of properties and the estimated costs to repair them in order to properly establish capital priorities and budgets. As discussed in the Appendix, MTHA does not yet have reliable building assessment information on which to base its capital plans.

In February 1995 independent consultants were hired to conduct condition assessments of 20 properties felt to be representative of MTHA's portfolio. This was a pilot project paid for by OHC as part of its Comprehensive Asset Management Program.

These assessments were far more comprehensive than those normally conducted by MTHA staff and identified problems having immediate safety and security implications. Estimated costs to correct most of these problems were incorporated into the 1996 capital budget. However, there were still projects requiring immediate action to eliminate safety hazards and estimated to cost \$500,000 that were not included in the 1996 capital budget. At the same time, funds were spent on lower priority items such as a landscaping project costing \$1.8 million and staff facilities costing \$380,000.

The pilot project, while more reliable than previous assessments, was time-consuming and expensive. OHC therefore decided to implement a cheaper, more expedient approach to updating its Interim Asset Management System. However, MTHA was concerned that, without a very large number of experienced external staff, it could not complete proper condition assessments of all properties in the time allotted by OHC. A more thorough approach that assesses tenant needs, obsolescence and major rehabilitation requirements has been proposed but not yet implemented.

Another reason why we were concerned about the process used to set capital priorities is that MTHA had not achieved the progress demonstrated by other LHAs in completing the *Ontario Fire Code* retrofit project. This project resulted from legislation revised on October 9, 1992 which requires existing buildings to be retrofitted to comply with new *Ontario Fire Code* safety standards. As of December 31, 1996, eighty-eight of MTHA's high-rise buildings were still in the process of completing their retrofit requirements, past the October 9, 1996 compliance deadline set for these buildings. This resulted in significant liability exposure for MTHA.

This exposure was of particular concern because the 1996 capital budget did not address all higher priority projects while projects of lesser priority, such as the landscaping and staff facility projects noted above, were completed. Specifically, the \$2.3 million allocated to the *Ontario Fire Code* retrofit project in 1996 was not enough to meet the retrofit project requirements as the work was originally scheduled to be completed over five years for both high-rise and low-rise buildings, well beyond the deadline set by legislation. The retrofit project was accelerated late in 1996 so that \$3.5 million was actually spent in 1996.

MTHA management indicated that it expects to complete the retrofit requirements for high-rise buildings by the end of February 1997. Low-rise building retrofits are expected to be completed by October 1997, as required by the legislation. We also understand that the remaining safety-related work identified by the 1995 building assessments will be completed during 1997.

Recommendation

To improve its capacity to reliably estimate future capital and maintenance requirements and to effectively establish priorities for long-term capital repairs, the Metropolitan Toronto Housing Authority should establish plans and timetables for completing comprehensive and reliable assessments of the condition and the costs of needed repairs.

Authority Response

Agree. The consultants' assessments of 20 Metropolitan Toronto Housing Authority properties did not result in needs substantially different from those identified in the Metropolitan Toronto Housing Authority five-year capital plan developed by staff and already in use. The estimated cost of needed repairs that was extrapolated from the consultants' assessments generally confirmed the needs previously estimated by staff.

Metropolitan Toronto Housing Authority staff is currently updating the five-year capital plan utilizing a combination of consultant data, property managers' requests, and inspections by professional staff and outside consultants. This update will result in a reliable audit of technical need for maintenance and capital work.

It is anticipated that Metropolitan Toronto Housing Authority's revised assessments will take into account the soundness of the physical asset, the maintenance profile, the safety and security of communities and resident involvement. The board expects that the improved assessments will be accelerated in 1997 and used, to the extent possible, in formulating the capital budgets for 1998 and beyond.

ASBESTOS MANAGEMENT

In 1995, in accordance with a 1993 OHC asbestos management policy, consultants conducted a survey of all MTHA properties. Requirements for the removal or control of asbestos are clearly stipulated by regulation.

The 1995 survey uncovered about 7,000 instances of asbestos that required immediate action to address. While this represented only about 1% of the sites tested, over 80% of the sites requiring action were found within residences rather than basements or garages.

MTHA procedures call for property managers to receive reports on all survey results for their buildings. The Health and Safety Committee is assigned the responsibility for performing yearly reassessments of asbestos materials and compliance with the regulation. The Asset Management Branch is responsible for maintaining and updating the asbestos inventory database and for advising property managers and the Health and Safety Committee of changes to the database.

With respect to the system for monitoring and controlling asbestos, we noted that:

- responsibility to update and maintain the database was not reassigned following restructuring in early 1996 and so the database was not updated with the 1995 survey results until late in 1996;
- action on most of the 7,000 instances had been delayed for most of the 1996 year; and
- in one project we visited, a Ministry of Environment and Energy official we contacted considered the exposed asbestos material serious enough to suggest its removal in order to prevent asbestos fibres from entering the ventilation system.

Recommendation

To ensure that high-priority projects such as asbestos abatement are completed expeditiously in order to minimize risk and exposure to residents, staff and the Metropolitan Toronto Housing Authority, the status of all projects involving health, safety or legislative compliance should be closely monitored and regularly reported to the board.

Authority Response

In February 1997, the Metropolitan Toronto Housing Authority engaged an external consultant to advise on the design and implementation of systems and processes to ensure corporate compliance and effective management of high-priority health, safety and environmental projects. The consultant will recommend the implementation of a process for monitoring the status of health, safety and environmental legislative compliance in association with the Metropolitan Toronto Housing Authority's projects, operations, and facilities; and for regular reporting on the same to the board.

Remediation and follow-up inspections of all high-priority (loose, friable, exposed) asbestos identified in the asbestos survey were complete by May 30, 1997. Remaining asbestos is contained and, undisturbed, is in compliance with applicable regulations. Procedures are in place for the safe handling and removal of asbestos materials by staff and contractors.

A full Asbestos Management Program covering monitoring, control, inspection and communications, and incorporating repair and/or remediation procedures for safe handling is in final draft and will be implemented by July 31, 1997.

3.12

MANAGING UTILITY COSTS AND ENERGY USE

In 1996 MTHA's costs for utilities such as electricity, fuel and water totalled \$39.2 million or about 24% of its total property operating costs.

Energy management has not been a priority since 1994 when MTHA management discontinued the practice of comparing its energy consumption to LHA energy consumption reports generated by OHC. Expenditures on energy conservation projects for 1996 were negligible. In 1996 utility costs for the seven geographic areas varied from \$272 to \$317 per rentable room and in total averaged \$297 per rentable room. In contrast the average for the 15 next-largest LHAs serving urban areas was \$249 per rentable room.

We also noted that MTHA applies a user-pay policy for utilities primarily to the approximately 500 scattered single and semi-detached units in its portfolio. Since other LHAs with user-pay policies for their individually metered units have experienced savings and reduced consumption, we believe that MTHA could achieve similar results by expanding its use of such policies wherever feasible.

MTHA management believes that the current level of expenditure can realistically be reduced and that an achievable target for 1997 would be \$276 per rentable room. This target translates into savings of almost \$3 million per year, although some capital investment will likely be required to achieve these savings.

Recommendation

To help meet performance targets for reducing utility costs and energy use, Metropolitan Toronto Housing Authority should examine the results of initiatives taken by other local housing authorities that have achieved substantial savings in utility costs and implement those having the greatest potential for payback.

Authority Response

Agree. Metropolitan Toronto Housing Authority will establish an energy management program, including a pilot project to be under way by September 1997.

The Authority is unlikely to meet the 1997 targets for utility cost reductions. The Board expects to review the unit operating costs, which include utility costs, in 1997 and set targets for the 1998 budget.

MAINTENANCE MANAGEMENT

MANAGING LABOUR COSTS

Approximately 19% of MTHA's housing units are privately managed. The cost of recurring maintenance for directly managed properties was \$38.1 million for 1996. Labour and related costs were about \$22.5 million, or about 60% of this amount. Maintenance services for directly managed properties cost \$350 per rentable room in 1996. This represents a significant reduction from 1995 costs of \$376 per rentable room and is a result of the restructuring initiatives described in the Appendix.

However, comparable costs for privately managed properties were about \$300 per rentable room in 1996, or 14% less than MTHA costs for the properties it managed. MTHA management believes that the privately managed properties are well managed as determined from the monitoring and reporting arrangements established in contracts with private companies.

Analysis of maintenance cost differences between privately managed properties and directly managed ones revealed that labour productivity is a significant factor. Specifically, MTHA maintenance staff had a high rate of absenteeism, averaging about 14 fully-paid sick days a year in 1996.

Another factor which may contribute to lower productivity is that management does not track the actual time spent by maintenance staff in completing maintenance assignments. While MTHA's property maintenance system can capture such information and standards have been proposed to provide a basis for assessing maintenance efficiency, staff performance has not been monitored against these standards. Tracking has so far been limited to the number of days required to complete jobs. With maintenance service delivery now restructured into site staff and zone crews, time tracking will be most relevant and important for managing the productivity of zone crews.

Given that MTHA plans to introduce a new building maintenance system in 1997, it may be useful to examine efforts made by other large LHAs to track maintenance jobs and staff and to establish standards before implementing the system.

We understand that management has established a goal of reducing maintenance expenditures to \$315 per rentable room by 1998. Such a reduction would achieve annual savings of about \$3.7 million and bring maintenance costs for directly managed properties to within 5% of 1996 private management costs. However, under a new contract private management costs will drop to \$270 per rentable room in 1997.

Recommendation

To help meet cost reduction targets for maintenance services, Metropolitan Toronto Housing Authority should develop strategies for increasing staff productivity and, in particular, for reducing time lost due to sick days taken.

Authority Response

Agree. The Metropolitan Toronto Housing Authority is implementing an attendance management program to reduce lost time due to sick days taken and improve productivity.

As of April 1997, the Metropolitan Toronto Housing Authority had commenced preparation of a detailed analysis of sick-time utilization, in order to identify implementation priorities. Implementation is expected to commence during the second quarter of 1997. The board expects a measurable reduction in sick-time utilization within 12 months.

3.12

MANAGING MAINTENANCE QUALITY

MTHA also lacked effective systems to monitor the quality of maintenance work performed by staff and external contractors. For example, a recent internal audit of maintenance services conducted using outside technical expertise found that 31% of sampled maintenance jobs that had been performed by external contractors had quality deficiencies. Late in 1996 MTHA established maintenance inspection procedures to be carried out by internal maintenance staff and property managers. The first round of inspections detected quality problems in less than 1% of external maintenance jobs inspected. Only one community office detected any problems. However, given the earlier results of the internal audit, we question whether these inspections provided reliable assurance of maintenance quality.

In addition, consultants hired by MTHA in 1996 to identify training needs and to develop a corporate training plan found that many maintenance staff lacked necessary attributes such as technical and safety knowledge and practical experience.

One approach MTHA has used to assess maintenance work has been resident satisfaction surveys. However, these surveys have had only limited usefulness because the response rate for many individual community offices is insufficient to assess results for specific buildings or property managers.

In contrast, our review of agreements and procedures for private management companies revealed that controls over the delivery of maintenance services were stronger for the privately managed companies than for the services delivered by MTHA, as the following points illustrate.

- Service delivery expectations, reporting requirements and performance evaluation criteria were clearly specified in contracts, and MTHA staff ensured that those contract provisions were met.
- Private property managers were evaluated annually against budget, maintenance quality and resident satisfaction criteria.

We understand that with the reorganization, property managers will be responsible for the quality of maintenance work done in the buildings they manage through quarterly inspections and results reporting. Periodic inspections are also to be conducted by an independent reviewer.

Recommendation

To better manage maintenance services, Metropolitan Toronto Housing Authority should establish service delivery, reporting and performance evaluation expectations for maintenance staff that are similar to those established for the private management companies it has under contract. Metropolitan Toronto Housing Authority should also examine maintenance management systems established by other large local housing authorities for their applicability to its requirements.

Authority Response

Agree. A review of the maintenance management systems of our directly managed portfolios, privately managed portfolios, and the larger local housing authorities will be undertaken. Standards will be developed and incorporated in the maintenance management plan by fall 1997.

FIRE CODE COMPLIANCE

MTHA has made various efforts to ensure compliance with *Ontario Fire Code* requirements. For instance, in 1994 external consultants were engaged to carry out a number of building audits to assess *Ontario Fire Code* compliance. Such efforts are important because MTHA incurs sizable losses from property damage and bodily injuries caused by fires.

However, our visits to several MTHA buildings uncovered instances of non-compliance such as fire logbooks not being kept up to date and notices of procedures in case of fire not being posted where required. In February 1997 management promptly followed up on all non-compliance that was noted during our visits and conducted a further review of all logbooks and requirements to ensure compliance.

Recommendation

To better ensure that *Ontario Fire Code* requirements are met and that any deficiencies are promptly identified and rectified, Metropolitan Toronto Housing Authority should periodically conduct independent inspections of all properties for compliance with *Ontario Fire Code* requirements, take any necessary corrective actions and report the results to its board.

Authority Response

Agree. The Metropolitan Toronto Housing Authority will establish an independent audit process to monitor fire code compliance across the portfolio. Compliance issues will be identified and reported to the board on a quarterly basis. The audit frequency and approach is being designed and the first report to the board will be in September 1997.

APPENDIX

MAJOR ISSUES RAISED AND ACTIONS TAKEN OR PLANNED IN RESPONSE TO 1994 CONSULTANT'S REPORT

CAPITAL PLANNING AND BUDGETING

1994 Issues	Action Taken or Planned
<ul style="list-style-type: none">• A backlog of capital projects was estimated to be \$230 million in 1994.• Backlog of capital projects resulted in priority work such as Ontario Fire Code upgrades and elevators repairs not being done.	<ul style="list-style-type: none">• Backlog still exists of about \$200 million although estimate is not based on a detailed assessment of all properties. (See below.) Funding not yet received to clear it.• Capital budgeting process was not revised until 1997; prior to that serious deficiencies were not addressed on a timely basis. Priorities such as Ontario Fire Code upgrades are now being addressed. Some were included in the 1996 budget and the remainder are included in the 1997 budget.
<ul style="list-style-type: none">• No comprehensive database on properties owned.• No studies yet on remaining useful life or cost of portfolio or how to regenerate it. Need for capital asset regeneration program.	<ul style="list-style-type: none">• MTHA has not yet developed a comprehensive database of its portfolio. Instead management is planning a more comprehensive approach to be developed in 1997.• In October 1996 a proposal was made by MTHA to the OHC board on the need for a more comprehensive portfolio assessment and regeneration program.• The only effort thus far to collect data on sites has been a pilot project, supported by OHC, where consultants studied a sample of 20 properties located in 11 of the 72 communities to assess conditions and needed repair costs. The remaining properties (over 90%) have not been similarly assessed. Consequently, a comprehensive database still does not exist as a basis for establishing priorities and reliably estimating future repair/rehabilitation requirements.
<ul style="list-style-type: none">• Lack of strategy for enforcing resident accountability. For instance, managing behaviour for greater asset protection.	<ul style="list-style-type: none">• On February 1, 1997, procedures were introduced to more clearly hold tenants accountable by charging them for the actual costs of repairing damages they cause to MTHA property.

APPENDIX

MAJOR ISSUES RAISED AND ACTIONS TAKEN OR PLANNED IN RESPONSE TO 1994 CONSULTANT'S REPORT

ACQUISITIONS OF GOODS AND SERVICES

1994 Issues	Action Taken or Planned
<ul style="list-style-type: none">The purchasing function was decentralized and not well coordinated among the six districts. Purchases of maintenance consumables were not well coordinated to take advantage of bulk purchasing.	<ul style="list-style-type: none">As of January 1996, all purchasing was centralized at head office. Management estimates that this centralization effort has generated savings of over \$2.5 million. These savings came from better control and coordination over volumes purchased, especially with consumable maintenance items such as supplies and spare parts, and better prices from greater bulk purchases.
<ul style="list-style-type: none">Contractors with poor performance continued to work for MTHA or bid on future jobs.	<ul style="list-style-type: none">In early 1996, sixteen companies were barred from bidding on MTHA contracts, primarily for poor performance, sending a strong message that MTHA will no longer tolerate chronic performance problems from contractors.In July 1996 a pre-qualification process was implemented which included the evaluation of contractors based on past performance. The prequalification process should prevent companies with poor qualifications or performance histories from obtaining work solely on the basis of a low bid.For maintenance work, new evaluation procedures were adopted in July 1996 to make property managers accountable for inspecting contractors' work.
<ul style="list-style-type: none">Technical Services Branch had complete control of the bid evaluation process. Such control provided opportunities for irregularities and favouritism. Also, project specifications were issued with inaccuracies.	<ul style="list-style-type: none">Effective August 1995 evaluation of contractor bids is being done by both the Purchasing Department and the Capital Projects Section, with technical assistance from external consultants. This measure should greatly reduce the risk of favouritism.In 1996 a new capital project management process was implemented where external consultants are hired and held accountable to prepare accurate design specifications, assist in contractor selection and inspect work to ensure it meets quality and design specifications.

APPENDIX

MAJOR ISSUES RAISED AND ACTIONS TAKEN OR PLANNED IN RESPONSE TO 1994 CONSULTANT'S REPORT

MAINTENANCE MANAGEMENT

1994 Issues	Action Taken or Planned
<ul style="list-style-type: none">• Need to revamp maintenance administration, as there was too much paperwork and a lack of coordination in a decentralized operation.• Need for proper training and allocation of staff.• The quality and efficiency of maintenance activities was not measured, and standards had not been established.• Opportunities for cost reductions through greater use of private management.	<ul style="list-style-type: none">• A reorganization of the maintenance function took place in early 1996. Following an extensive review of maintenance requirements, the board decided to reduce staff by over 100 positions and to divide the remaining maintenance staff into two groups. One group, located at the project sites, is responsible for routine maintenance (custodial) functions (340 staff), and a second group of about 200 staff are assigned to one of four zone crews, each of which is responsible for ongoing and planned maintenance in its respective zone.• Recurring maintenance costs have been reduced from \$376 per rentable room in 1995 to \$350 per rentable room in 1996, a savings of almost \$3 million.• Other changes introduced or planned:<ul style="list-style-type: none">- by December 1997 performance of maintenance staff will be measured against target levels for such indicators as maintenance costs as % of private management costs, % of inspected properties properly maintained, and % of maintenance requests completed within time standard.- established training program for maintenance staff and/or property managers which will continue into 1997 based on skills testing undertaken in 1996.- plans to implement a formal performance management system for staff starting in 1997, with full implementation by January 1998.• MTHA continues to manage over 80% of its properties. Fifteen projects are privately managed under contract with MTHA. Despite recent cost-cutting efforts, recurring maintenance costs per rentable room for properties managed by MTHA still substantially exceed those incurred by private management.

APPENDIX

MAJOR ISSUES RAISED AND ACTIONS TAKEN OR PLANNED IN RESPONSE TO 1994 CONSULTANT'S REPORT

SECURITY SERVICES

1994 Issues	Action Taken or Planned
<ul style="list-style-type: none">• Need for a professional police force, preferably the Metropolitan Toronto Police Force (MTPF), to provide security in the areas of highest and most persistent security problems, where this initiative is supported by the majority of residents.• Need for security contract with a single private firm supervised by the professional police force and able to provide the necessary level of security required for the rest of the communities.	<ul style="list-style-type: none">• MTHA decided that a professional police force was not affordable. In 1995 security services for all areas considered lower risk were contracted out to a single security firm. Security for higher risk areas continued to be provided by MTHA security staff designated as Provincial Offences Officers. These staff received substantial training from professional sources.• The single security contract was terminated after one year because of concerns over the quality of service and high and rising administrative costs (\$2.5 million). Security services returned to being delivered by MTHA staff.• The 1997 budget for security services is \$11.6 million, 92% of which relates to salaries and benefits for about 220 officers, supervisors and support staff.• A 1996 study requested by the Metro Toronto Police Services Board resulted in several recommendations to improve safety in Regent Park. The three recommendations made to MTHA have been acted upon. MTHA is working with MTPF and resident representatives on security strategies, including closer cooperation between MTHA Security and MTPF.• The Security Services Branch has developed a comprehensive set of risk assessment and measurement tools as well as performance indicators and standards planned for use beginning in 1997.

Commercial Vehicle Safety and Regulation

3.13

The Ministry of Transportation's Safety and Regulation Division is responsible for the coordination of all road safety activities for the province. The Division oversees the intercity bus and truck industries, administers the licensing of for-hire transport, and enforces legislation with respect to driver and vehicle safety, vehicle weight and size, and the movement of goods. The Ministry estimates that there are 190,000 commercial vehicles registered in the province. A commercial vehicle is defined as a truck exceeding 4,500 kilograms or a bus that transports 10 or more passengers. The legislation also applies to out-of-province commercial vehicles which use Ontario's roads.

To enforce safety legislation, the Ministry has a network of 43 roadside inspection stations staffed by approximately 200 enforcement officers who report to 17 area and five regional offices. To detect vehicles that bypass inspection stations, the Ministry patrols the highways and routes around the stations and, at the time of our audit, had recently introduced the use of a mobile truck inspection unit. The Ministry also periodically conducts safety inspection blitzes, often with the assistance of municipal or provincial police. In addition, the Ministry employs 40 facility auditors to review, at the carriers' premises, carrier documentation such as vehicle maintenance records and driver log books.

All operators of commercial vehicles must be registered on the Ministry's Commercial Vehicle Operator's Registration (CVOR) system. CVOR registrants are responsible for complying with the legislative requirements regarding the condition and operation of commercial vehicles. A ministry-issued licence is also required in order for an operator to transport goods for compensation. Additionally, commercial vehicles must be inspected at a ministry-licensed Motor Vehicle Inspection Station and safety-certified by a licensed mechanic at least once a year. The Ministry spent \$21.4 million on commercial vehicle safety activities during the 1996/97 fiscal year.

OBJECTIVES AND SCOPE

Our audit objectives were to assess whether the Ministry had adequate procedures in place:

- to measure and report on the program's effectiveness in ensuring commercial vehicle safety;
- to ensure compliance with legislation and ministry policies; and

-
- to ensure that resources were managed with due regard for economy and efficiency.

The scope of our audit included a review of documentation and discussions with ministry staff at head office and regional and area offices, as well as the observation of activity during a safety inspection blitz and at a roadside inspection station. We also contacted and discussed vehicle safety issues with representatives of industry associations and the Ontario Provincial Police.

OVERALL AUDIT OBSERVATIONS

A number of recent accidents involving trucks with detached wheels and faulty brakes have increased public concerns regarding the mechanical condition of commercial vehicles. To address these concerns, the Ministry has implemented a number of legislative changes and has initiated several projects designed to make provincial highways safer.

However, further action by the Ministry is necessary to enhance road safety, to manage resources more efficiently, and to establish better procedures to measure and report on the effectiveness of its many new initiatives. The Ministry needs:

- to improve its reporting process to ensure that adequate information is made available to assess the effectiveness of the new commercial vehicle safety initiatives;
- to ensure that its inspection efforts result in reducing the incidents of non-compliance with safety legislation by setting minimum targets for the number of vehicles and carriers to be selected for truck and bus inspections, vehicle weight inspections and facility audits;
- to strengthen the enforcement process dealing with non-compliant operators to ensure that carriers are sanctioned on a timely basis and unsafe vehicles are removed from the road;
- to review controls over the Commercial Vehicle Operator's Registration system to ensure that the information recorded is accurate, complete and can be used to readily identify and act on non-compliant carriers;
- to ensure efficient and effective program delivery by assessing the appropriateness of the current lines of accountability and by developing guidelines for inspection station staffing and scheduling; and
- to strengthen control procedures over safety certificates to ensure that only properly inspected commercial vehicles are safety certified.

Overall Ministry Response

Truck safety continues to be a major public issue. Over the past two years, there have been a number of serious incidents resulting in fatalities and injuries. Pressure to implement tougher measures for unsafe trucks increased following a coroner's inquest into two fatalities involving truck wheel separations. The Ministry has now implemented the majority of the coroner's recommendations. However, public pressure increased with two more fatalities from separated truck wheels this past Christmas and continuing incidents involving large commercial trucks.

Collisions involving trucks tend to be more severe because of their size and weight and because they are generally travelling on highways at higher speeds. The dramatic nature of the incidents involving trucks continues to reinforce the public's negative perception of truck safety.

The Ministry's 1997/98 Business Plan acknowledges the importance of commercial vehicle safety and has identified attention to this area as one of its key priorities.

Over the past two years, the government has introduced several new initiatives to improve commercial vehicle safety, including the following:

- *higher fines for unsafe operators;*
- *legislation supporting a carrier safety rating system;*
- *closing legislative loopholes for unsafe operators;*
- *mandatory reporting of fleet sizes and distances travelled;*
- *"zero tolerance" enforcement policy;*
- *hiring additional enforcement staff;*
- *more timely remedial interventions;*
- *wheel installation and air brake adjustment certification;*
- *recommencing enforcement of weight laws on gravel trucks;*
- *shipper responsibility for weight violations;*
- *the Automatic Vehicle Identification program;*
- *mandatory audits for new entrants to the intercity bus industry; and*
- *a new performance-based facility audit program.*

Even with all of the initiatives listed above, the Minister of Transportation and the trucking industry have been under pressure to accelerate their efforts to improve truck safety in Ontario. In response to this pressure, the joint government/industry Target '97 Task Force on Truck Safety was created last fall to make recommendations addressing truck safety issues.

On March 10, 1997, the Task Force tabled a Target '97 Final Report that included 79 recommendations to address truck safety. The recommendations cover areas such as carrier safety rating, the Commercial Vehicle Operator's Registration system, maintenance and inspection standards, hours of work and driver training. The government is currently developing an implementation plan for the Target '97 initiatives.

The Target '97 Task Force endorsed the concept of an immediate roadside suspension for critically defective vehicles. The Task Force also developed a set of measurable criteria that could be used by enforcement officers to determine vehicles with critical defects warranting immediate suspension.

Ministry enforcement officers conduct approximately 40,000 commercial vehicle safety inspections per year. From these inspections, a 50% out-of-service rate equates to about 20,000 vehicles being detained for safety infractions ranging from minor to major defects. In the cases where vehicles have major or multiple defects, the plates are removed and re-registration is not allowed without a safety certificate.

Recent surveys of safety inspection reports by ministry staff estimate that 2,000 to 2,500 vehicles per year have critical defects over and above the Target '97 suspension criteria. Of these vehicles, 75% to 80% were trailers. However, on an overall basis, it appears as if vehicle condition is improving. Results of the June 1997 Roadcheck, a three-day random inspection blitz, showed a marked improvement from the previous year (39.1% out-of-service rate in 1996; 32.9% out-of-service rate in 1997).

Notwithstanding the safety improvements introduced in Ontario over the past two years, these statistics indicate a continuing truck safety problem requiring additional action.

Bill 138, the Comprehensive Road Safety Bill passed on July 3, 1997, provides authority for enforcement staff to immediately impound critically defective vehicles regardless of their home jurisdiction. This Bill also imposes an absolute liability offence for wheel separations from commercial vehicles, with statutory fine levels of between \$2,000 and \$50,000. These provisions are the first of their kind in North America and we believe will act as strong motivators for improved commercial vehicle safety in the future.

DETAILED AUDIT OBSERVATIONS

SAFETY PLANNING AND REPORTING

PLANNING AND POLICY INITIATIVES

Legislative requirements under the *Highway Traffic Act*, the *Truck Transportation Act*, the *Dangerous Goods Transportation Act* and other related statutes provide the framework for commercial vehicle safety. In addition to legislation, the federal-provincial National Safety Code establishes minimum safety standard requirements throughout Canada. The Ministry has developed its policies and procedures based on legislative and national requirements.

The Ministry's goal is to significantly reduce the number of vehicle collisions and related deaths and to make Ontario's roads the safest in North America. To help achieve this goal, the Ministry has implemented, or was in the process of implementing, changes to the legislation governing commercial carriers. At the time of our audit, the Ministry was also working on a number of new policy and procedural initiatives.

Several of these initiatives resulted from the 31 recommendations from a 1994 inquest into deaths resulting from the detached wheels of commercial vehicles. These initiatives resulted in improvements such as increased fines and more comprehensive audits at commercial carriers' facilities.

In April 1994 the Ministry announced the Road Safety Agenda, a major undertaking to identify all areas within the Ministry that impact on road safety. Subsequently, the details of the Ministry's safety initiatives and the timeframes for their achievement were itemized in its October 1995 *Road Safety Plan*. The Ministry's plans included the development of a commercial carrier safety rating system, air brake training courses and graduated licensing for truck drivers.

A joint ministry/industry group called the Target '97 Task Force on Truck Safety was formed to develop an integrated, comprehensive and effective truck safety compliance system. The Task Force released a report containing approximately 80 recommendations in March 1997. These recommendations included improvements to the Commercial Vehicle Operator's Registration system, enhanced inspection and maintenance standards, improved driver training standards and an improved driver's licence test.

At the time of our audit, a number of other initiatives were also under way, such as a Vehicle Weight Review project to make weight laws more consistent with those of other jurisdictions and Enforcement '97, which is a strategy to address the location, design and construction of truck inspection stations. Many of these initiatives had neither implementation dates nor estimates of the resources necessary to complete them and had not been prioritized for action. In addition, no overall status report had been prepared detailing the progress made on each of the commercial vehicle safety initiatives. Such a report would assist ministry management in planning, prioritizing and scheduling.

Recommendation

To ensure that the initiatives identified in recent studies contribute to safer highways, the Ministry should:

- develop priority rankings and cost estimates to focus limited resources on high priority initiatives; and
- set target dates and periodically assess the status of each initiative to help encourage completion within a reasonable period of time.

Ministry Response

The Ministry employs a truck safety strategy under the umbrella of the Ministry's Road Safety Plan that contains a significant number of commercial vehicle safety enhancements which are under development.

The Ministry has now completed a full review of all safety initiatives. All projects have been defined, ranked, costed and target dates have been identified and included in the Safety and Regulation Division's work plan.

A formal reporting mechanism has now been implemented requiring quarterly reporting of project status information on initiatives under development. The Carrier Safety and Enforcement Branch is responsible for regular reviews of high priority initiatives and preparing the quarterly status reports.

One of the major initiatives that contributed to the work plan was the Target '97 recommendations. These recommendations will form the basis for commercial vehicle safety programming into the year 2000. All recommendations have now been catalogued and scheduled for implementation.

EFFECTIVENESS MEASUREMENT AND REPORTING

The Ministry's 1996/97 Business Plan outlined its aim to reduce the number of persons injured and killed on Ontario's highways as well as reducing property damage and the overall societal costs related to vehicle collisions. The Safety and Regulation Division's vision is to make Ontario's roads the safest in North America. However, at the time of our audit, only limited measures were in place to assess the overall effectiveness of commercial vehicle safety activities.

The Ministry is required to produce and table in the Legislature an *Ontario Road Safety Annual Report* providing statistical information such as the number of traffic accidents and fatalities. However, the report's information is not detailed enough to allow either the Ministry or members of the Legislature to properly assess commercial vehicle safety. Also, the report is not produced on a timely basis, as the report for the 1995 calendar year was not tabled in the Legislature until May 1997.

The Ministry began a project in 1995 to evaluate its statistical information on commercial vehicles and identified the need for an annual report devoted specifically to commercial vehicles. The Ministry also outlined the special needs of various users of the information such as

those responsible for road design, driver control and licensing. As a result, the Ministry plans to introduce an annual evaluation of commercial vehicle safety in December 1997.

The Ministry periodically produced a divisional report designed to measure the effectiveness of its efforts. The report noted fatalities by month, fatality rates as compared with other jurisdictions in North America as well as driver statistics for collisions, suspensions and convictions. However, these indicators did not specifically address commercial vehicle safety, and the most recent report was dated September 1995.

In May 1996 a consultant reviewed the divisional report and recommended measuring and reporting results specifically related to commercial vehicles. The consultant recommended effectiveness measures such as the rate and severity of accidents involving commercial vehicles, the rate of compliance within the trucking industry, the resources committed to addressing commercial vehicle safety and comparisons with other jurisdictions.

Recommendation

In order to make better informed decisions and initiate corrective actions when necessary, the Ministry should provide better information to assess the effectiveness of commercial vehicle safety efforts and report on the evaluation of commercial vehicle safety on a more timely basis.

Ministry Response

As noted in the audit report, the Ministry is preparing the first annual comprehensive evaluation of commercial vehicle safety. The Ministry initiated an evaluation of the need for periodic commercial vehicle safety effectiveness information in 1995. This information was intended to supplement a divisional report measuring the effectiveness of its safety programming efforts.

Further, this initiative is linked to the Ministry's performance measures in that improvements to commercial vehicle safety as a performance target are dependent on proper evaluation. The Ministry is also in the process of establishing a formal program effectiveness and efficiency mandate as part of its Carrier Safety and Enforcement Branch.

SAFETY EDUCATION AND AWARENESS

The Ministry's most recent statistics show that vehicle defects were not apparent in over 90% of traffic accidents reported and that driver error was the overwhelming cause of most accidents. Consequently, in addition to policy development, compliance monitoring and enforcement activities, the Safety and Regulation Division has adopted a fourth goal—promoting driver education and awareness.

The Ministry has a number of informal mechanisms in place to educate commercial carriers about the rules and regulations related to vehicle safety. For example, ministry staff communicate relevant legislation and policy to drivers during roadside inspections and facility audits. Ministry staff attend meetings at the carrier's premises to explain relevant safety issues. The

Ministry also informs the industry of legislative and policy changes through articles in trade publications.

The Ministry has initiated a number of measures to enhance road safety through education and training. For example, it was involved in the development of a wheel installation certification program that was delivered by the industry and a brake adjustment training program for truck drivers. The Ministry also intends to review the operation of truck driving schools, assess driver training requirements and consider graduated licensing for truck drivers.

At one time the Ministry issued to all CVOR certificate holders a periodic publication that covered relevant legislation, policy initiatives and other ongoing issues. However, as a cost-saving measure this publication was discontinued in the 1992/93 fiscal year. Given the many changes being implemented and considered, a similar publication or some other regular means of communication to the industry may be warranted.

Recommendation

The Ministry should improve its communication process to keep the industry informed of changes currently taking place or being considered.

Ministry Response

The Ministry recently issued a commercial motor vehicle newsletter in April 1997. The newsletter was sent to over 90,000 interest groups, road safety stakeholders, Commercial Vehicle Operator's Registration certificate holders, industry associations and trade publications. The CMV News also surveyed the recipients' interest in receiving this newsletter on a regular basis. To date there has been a favourable response. The Ministry is also using the Internet and other means of communication, such as trade and public media. The Ministry also conducts numerous seminars and provides presentations for industry groups as part of its ongoing communications strategy.

This government has been very vocal regarding new truck safety initiatives, which has prompted extensive coverage in mainstream media extending internationally. The Ministry also participates in and shares information on truck safety initiatives in various national and international forums such as the Canadian Conference of Motor Transport Administrators, the American Association of Motor Vehicle Administrators and the Commercial Vehicle Safety Alliance.

COMMERCIAL VEHICLE INSPECTION ACTIVITIES

ROADSIDE INSPECTIONS

The Ministry's inspection and enforcement efforts at its 43 roadside inspection stations are a major component of the compliance monitoring process. These roadside inspection stations are staffed by approximately 200 enforcement officers. The inspections are conducted in accor-

dance with legislative requirements established under the *Highway Traffic Act* as well as with North American standards developed by the Commercial Vehicle Safety Alliance, generally known as CVSA standards.

Roadside inspections can include a mechanical check of the vehicle, a review of the driver's log book, licence and shipping documents as well as a comparison of the vehicle's weight with the legislated limits. Under CVSA standards, when a commercial vehicle is deemed unsafe, likely to break down or cause an accident, or if conditions would likely contribute to loss of control of the vehicle, the vehicle is to be placed "out-of-service." It can be returned to service only after the required repairs are made. Where appropriate, the Ministry may detain the vehicle, remove its licence plates or lay charges under the *Highway Traffic Act* against the driver or the carrier. Roadside inspections help ensure that commercial vehicles are in safe operating condition and act as a deterrent to repeat offences.

To complement roadside inspection stations, the Ministry coordinates periodic inspection blitzes with provincial or municipal police, has introduced the use of a mobile inspection unit and participates in the North America-wide program termed Roadcheck. Roadcheck is an annual three-day event whereby commercial vehicles are randomly selected for safety inspection throughout North America. The inspection results provide a benchmark for assessing the trucking industry's level of compliance with legislated requirements.

An important component of the Ministry's inspection program is CVSA roadside inspections. The following table shows the number of CVSA inspections performed by the Ministry and the corresponding out-of-service rates. The out-of-service rates for the Roadcheck program, the benchmark, are also shown.

Vehicle Inspections from 1992/93 to 1996/97

Fiscal Year	# of Ministry CVSA Inspections	% Ministry CVSA Out-of-Service	% Roadcheck Out-of-Service
1992/93	38,200	32.2	37.0
1993/94	34,800	34.0	33.4
1994/95	15,200	48.0	43.0
1995/96	21,000	53.0	43.3
1996/97	38,700	51.8	39.1

Source: Ministry of Transportation

The number of CVSA inspections performed by the Ministry has varied significantly over the past five years. The increase in the Ministry's out-of-service rates reflects the Ministry's approach of targeting for CVSA inspection vehicles which appear to be in poor mechanical condition. Roadcheck results suggest that the industry's level of non-compliance with legislated requirements has been relatively stable over the period we reviewed. However, in the fiscal years when the Ministry performed the fewest numbers of CVSA inspections, 1994/95 and 1995/96, Roadcheck found the greatest levels of non-compliance in terms of both frequency and severity of defects. The Ministry informed us that the preliminary results of the June 1997

Roadcheck showed a decrease in the out-of-service rate to 32.9%. The Ministry also advised that the defect rate per vehicle had decreased as well.

There was a significant decrease in the number of inspections performed in 1994/95. We were informed that this was due to a reduction in supervisory staff and the implementation of a self-directed work team approach. The Ministry increased the responsibility of frontline staff but did not provide staff with guidelines for the number of inspections to be performed. To address the decrease in the number of inspections, the Ministry developed the target of a 20% increase in the number of inspections each work team was to perform. To determine whether the targets were achieved, the Ministry compared the planned volume of activities to the actual achieved volume on a monthly basis. The 20% target increase was set without an assessment of the appropriateness of the previous year's performance. Also, the Ministry had not established a benchmark for the appropriate or minimum number of inspections required to have an appreciable effect on individual carriers and overall industry compliance.

Recommendation

To ensure that roadside inspection efforts improve the level of carrier compliance with safety legislation, the Ministry should:

- develop appropriate targets for the number of inspections to be performed; and
- based on those targets, monitor actual activity so that variances are identified and corrective action can be taken as required.

Ministry Response

Roadside inspections serve a number of important safety objectives. Inspections ensure that commercial vehicles operating on our roads are in a safe operating condition and those found in unsafe condition are required to be repaired before proceeding. The resultant detentions, plate removals, fines and Commercial Vehicle Operator's Registration record interventions, such as facility audits, act as a strong deterrent to repeat offenders.

While the number of Commercial Vehicle Safety Alliance inspections varies over time due to staff fluctuations, training, labour issues and changes in program priorities and delivery strategies, the Ministry has established a minimum goal of 40,000 commercial vehicle inspections during the 1997/98 fiscal year as one of the core business performance measure commitments. This goal at the minimum will double the number of day-to-day inspections conducted in 1995/96.

Officers are now expected to spend a minimum of 50% of their time performing Commercial Vehicle Safety Alliance roadside inspections. This target has been incorporated into the Ministry's key performance activities and indicator work plans for 1997/98. District report cards are produced monthly for review by the district and regional management teams. The report cards identify productivity and variances against targets. Monthly reports are summarized for analysis on a quarterly basis for review by district, regional and branch management. Corrective strategies are required to address variances.

3.13 SELECTION OF VEHICLES FOR ROADSIDE INSPECTION

The Ministry's 17 area offices are responsible for the 43 roadside inspection stations strategically located throughout the province. To maximize the efficiency of roadside inspections, ministry enforcement staff target for inspection vehicles that appear to be in poor mechanical condition. All inspection data is recorded on the Ministry's inspection information system, SafetyNet. This system records information such as the locations of inspections, vehicle operators and the number of axles on each vehicle. Non-compliance information is also recorded, such as any out-of-service conditions, charges laid or plate removals.

Based on reports regularly generated from the SafetyNet system, we found significant variations in inspection activities across the province. For example, the November 1996 reports showed that out-of-service rates for area offices varied from a low of 30% to a high of 75% and serious out-of-service conditions requiring licence plate removals varied from 8% to 57%. Some variance in out-of-service rates and plate removals is to be expected due to the prevalence of certain types of vehicles in an area and the availability of roadside repair services. However, we found no documented review or follow-up to determine the reasons for these variations.

We also requested information from the Ministry which is not regularly generated for review. For example, we requested the number of inspections performed by each area office for various types of vehicles. We found that the percentage of two-axle vehicles inspected, compared to the total number of inspections performed by each area office, ranged from 18% to 49%. We were informed that two-axle vehicles require less time and effort to inspect. The decision to select two-axle vehicles was not based on a review of information available to determine whether this type of vehicle was more likely to have mechanical defects. The Ministry has not used this type of information and corresponding out-of-service rates to target vehicles for inspection.

Recommendation

To more effectively target inspection efforts and identify areas where corrective actions are required, the Ministry should identify inspection information needs, regularly generate corresponding reports and investigate any unusual variances.

Ministry Response

While officer experience in identifying high-risk vehicles for inspection is indispensable, the Ministry will ensure that certain types of vehicles overrepresented in out-of-service defects are included in the vehicle inspection targeting efforts. Data collected during day-to-day non-random inspection activities provide valuable feedback to area enforcement staff to ensure higher risk vehicle configurations are selected for inspection. In addition, the Ministry is currently reviewing a computer-based commercial vehicle inspection program.

The Ministry's monthly district report card provides local, regional and branch management with productivity and variance information. Variances are now required to be accounted for and corrective action taken where appropriate.

This direction will be greatly supported by new legislation that provides authority for critically defective vehicles to be impounded for a minimum of 15 days. The Ministry expects to roll this program out at strategically located truck inspection stations that will operate around the clock. In this very controlled environment, it will be ideal to conduct this kind of analysis and evaluation. It will also be possible to evaluate the effect that the impound program is having on the critical defect rates.

COMMERCIAL VEHICLE WEIGHT INSPECTIONS

Legislation specifies a maximum weight per vehicle and a maximum weight per axle for the safe operation of commercial vehicles and for the protection of Ontario's roads from untimely deterioration. Fixed weigh scales are located at truck inspection stations to enforce these requirements. When trucks enter a station they are sorted by the enforcement officers either to be weighed or to bypass the scales. Below are ministry statistics for the numbers of weight inspections conducted over the last five years and the corresponding charges laid for being overweight.

Vehicle Weight Inspections Reported 1992/93 to 1996/97

Fiscal Year	Vehicles Weighed	Charges Laid	Charge Rate %
1992/93	964,400	8,400	0.9
1993/94	960,000	9,100	1.0
1994/95	574,400	5,250	0.9
1995/96	427,800	5,550	1.3
1996/97	525,200	7,200	1.4

Source: Ministry of Transportation

As can be noted from the table above, the number of charges laid for excessive weight loads represents only about 1% of the total vehicles weighed. Despite such a low charge rate, ministry workload estimates for the 1996/97 fiscal year indicated that more staff time was apportioned to weighing vehicles than to CVSA inspections. Since enforcement staff are not required to record or document vehicles weighed, the Ministry could not verify that the number of weight inspections recorded was accurate.

During our audit we found that another division of the Ministry had recently conducted research using data obtained from weigh-in-motion scales which had been installed at various locations throughout the province. Based on the data collected and analyzed, researchers determined that weight violations occurred most frequently in large configuration commercial vehicles, which represent approximately 20% of the total commercial vehicle population. The research showed that 10% of those vehicles were overloaded by gross weight and 20% were overloaded by axle weight. This represents 2.5% to 5% of the total commercial vehicle population and suggests the Ministry's 1% charge rate is relatively low. A consultant's report from August 1995 identified similar incidents of non-compliance and recommended the use of weigh-in-motion technology to more effectively identify weight violators in high-volume areas.

Recommendation

To more effectively monitor vehicle weight inspections and to efficiently use staff resources, the Ministry should:

- **record all vehicles that are weighed so that the Ministry can more effectively monitor that activity and take corrective action as necessary; and**
- **develop criteria to more effectively target high-risk vehicles for weight inspections.**

Ministry Response

Recognizing that manually recording all vehicles weighed may increase paperwork and thereby reduce officers' time for more productive enforcement activities, the Ministry will explore the feasibility of automated methods of recording vehicle weighings using technologies such as weigh-in-motion scales and plate readers.

The use of weigh-in-motion technology already installed in higher traffic volume scales will identify high-risk vehicles for weight inspections. In other areas in the province, criteria to ensure the effective identification of high-risk vehicles, carriers, commodities and routes will be formalized.

BUS SAFETY INSPECTIONS

The Ministry's Bus Safety Inspection Program is based on visits to the operators' premises to conduct mechanical inspections of a statistical sample of buses. These bus inspections, conducted by ministry enforcement officers, result in a safety rating for each operator. Operators are rated either satisfactory (inspected annually), conditional (inspected semi-annually) or unsatisfactory (inspected three times annually). During our last audit in 1989, the Ministry had

conducted over 8,600 bus inspections during the previous year. During that audit we found that all areas we visited had difficulty in meeting the guidelines for the number of bus safety inspections to be performed. For the 1995/96 fiscal year, the Ministry conducted only 4,500 bus inspections.

We visited three regional offices and found that one region and its area offices did not follow the Bus Safety Inspection Program but instead focused on the roadside inspection of buses. The region's staff did not visit the operator's premises to safety-rate each operator as required because they believed that roadside inspections were more effective in identifying and charging problem bus operators.

The other two regions' area offices we visited used the Bus Safety Inspection Program and safety-rated bus operators. One area office met the ministry guidelines for the number of visits to the operator's premises. In the previous year, the other area office had performed inspections on just half of the bus operators in the area.

The Ministry had not assessed the various methods used by the regional and area offices to determine which combination of roadside inspections and bus operator premise visits would constitute the most efficient use of resources and be most effective for promoting road safety.

Recommendation

To ensure an efficient and effective Bus Safety Inspection Program, the Ministry should:

- review the current approaches used by the regional and area offices to determine the appropriate combination of roadside inspections and visits to premises; and
- upon determination of the appropriate inspection approach, develop standardized policies and procedures to assist area offices in implementing a comprehensive and consistent bus inspection process.

Ministry Response

The Ministry remains committed to ensuring that the bus industry's on-road safety record remains uncompromised.

The Ministry's review and assessment of the bus inspection program options will determine the most effective and efficient method of ensuring bus safety. In addition, bus operators are high-priority audit candidates under the facility audit program.

Similar to the Target '97 process recently completed for trucks, the bus community is now reviewing all areas of safety programming relevant to its industry, including the Commercial Vehicle Operator's Registration system, vehicle inspection and maintenance, carrier safety ratings, hours of work, enforcement practices and driver qualifications. The bus industry supports ongoing on-road bus inspections and its major associations have participated and sanctioned the Ministry's bus blitzes to date. The intercity bus industry is expected to be deregulated effective January 1, 1998. The Ministry and the bus community will work together to ensure that effective safety programs are in place prior to this date.

3.13

COMMERCIAL CARRIER FACILITY AUDITS

Facility audits are conducted at the carriers' premises by ministry enforcement officers. Standard audit procedures include a review of information such as records of driver training, hours of work, driver log books, trip documentation, vehicle maintenance records and insurance coverage. The audit also includes a mechanical inspection of a sample of vehicles from the carrier's fleet. A July 1994 study conducted by an American university found that the benefits of a facility audit exceed its cost by a ratio of 4 to 1. In addition audited carriers had lowered their accident rates by an average of 40%.

During the 1995/96 fiscal year, the ministry's 40 facility auditors conducted 750 audits across the province and planned to perform approximately 1,000 audits in the 1996/97 fiscal year. This is down from the three previous years for which statistics were available when, on average, 1,700 facility audits were performed annually. During the 1995/96 fiscal year, the Ministry implemented a more comprehensive facility audit process, but had not established a benchmark for the number of facility audits required to achieve an appropriate level of carrier and industry compliance. There were also no detailed ministry-wide guidelines for the selection of high-risk carriers for facility audits.

In May 1993 the Ministry initiated a project to develop a Carrier Safety Rating system to be derived from the results of a facility audit and the carrier's CVOR record. The Ministry intends to assess and rate each carrier's safety performance. Public release of the ratings is expected to impact on the carrier's insurance premiums and its ability to attract business and, consequently, should have a positive effect on carrier safety.

The Ministry's goal is to require that facility audits be performed every three years for all commercial carriers in the province. The Ministry is considering the use of independent assessors to conduct such facility audits. However, it plans to retain the ability to enter the carriers' premises for enforcement and quality control purposes.

The legislation for the Carrier Safety Rating system was introduced to and passed by the Legislature as an amendment to the *Highway Traffic Act* in December 1996. Ontario is continuing to work with other provinces through the federal-provincial Canadian Council of Motor Transport Administrators to ensure the uniformity of safety ratings. However, at the completion of our audit, the section of the amendment relating to the Carrier Safety Rating system was not yet in effect. The Ministry had completed a pilot project to get a preliminary assessment of its proposed rating system. Prior to implementation, the Ministry needs to finalize its facility audit model, develop policies and regulations, and decide whether to out-

source part or most of the function. Outsourcing will require additional time for developing policies, establishing the necessary qualifications and implementing training programs.

Recommendation

Until the new Carrier Safety Rating system is implemented and to ensure that facility audits are performed efficiently, the Ministry should:

- determine the appropriate number of facility audits to be performed and adjust activity to achieve this number; and
- use a risk-based approach for the selection of carriers for facility audits.

Ministry Response

The Ministry can confirm that the number of facility audits will increase as the new audit model is finalized and corresponding benchmarking standards are established. The recruitment of 16 new auditors hired in 1996/97 will also impact the number of audits completed.

The current audit selection process requires that carriers be “targeted” for selection based on one of six risk categories: out-of-service vehicle inspection rates; complaints; bus or dangerous goods operators; operators in areas of low enforcement; public sector operators; and poor Commercial Vehicle Operator’s Registration safety record referrals.

The Ministry’s audit targeting criteria will continue to be tightened and prioritized to ensure the selection process identifies the higher-risk carriers for facility audit. Target ’97 recognized the effectiveness of the Ministry’s revamped facility audit program and also has recommended that audits be mandatory as part of the future safety rating methodology.

The review of the audit benchmarking and selection criteria will be completed after the new audit program is completed. In this regard, the Ministry is looking at a number of evaluative criteria beyond absolute numbers of audits completed, including the number of driver files reviewed, the number of vehicle files and vehicles examined and follow-up audit requirements.

CARRIER ENFORCEMENT ACTIVITIES

All detentions for out-of-service incidents, convictions for safety infractions and reported accidents involving a carrier’s vehicles are coded by the Ministry as numerical values and recorded in the CVOR system. Cumulative violations are compared to the carrier’s predetermined numerical threshold and, if this threshold is exceeded, the Ministry initiates a sanctioning process. The threshold is based on the carrier’s fleet size and is approximately three times the industry’s historical average violation rate, which is based on the frequency and severity of violations. The last review of carrier threshold levels was completed by the Ministry in August 1995.

When problems recorded on the CVOR system exceed a carrier's threshold level, the Ministry's intervention process is initiated with a warning letter sent to the carrier. The Ministry requires a 25% reduction in the carrier's accidents, detentions and convictions every six months until incidents of non-compliance fall below the allowable threshold. If the carrier does not achieve the required reduction, the Ministry may interview or audit the carrier to establish a plan to improve performance.

If the interview or audit process does not bring the carrier into compliance, then the Ministry may decide to sanction the carrier by suspending or revoking its operating privileges or limiting its fleet size. The carrier can appeal any decision to the Licence Suspension Appeal Board, a quasi-judicial body established under the *Highway Traffic Act*. If the carrier is not satisfied with the Board's decision, it may appeal to the Ontario Court. During the intervention and appeals process the carrier is allowed to continue to operate.

WARNING LETTER INTERVENTIONS

The CVOR system automatically generates a "warning letter list" of carriers that have accumulated enough points to exceed their numerical thresholds. The Ministry checks the listed carriers for relevant information such as the fleet size and whether another ministry action is pending, such as an interview, audit or sanction. During the 1996 calendar year, the Ministry sent out over 2,300 warning letters.

We reviewed a sample of carriers recorded on the warning letter list generated for a one-week period in June 1996. Of the total sample selected, 20% of carriers were not sent warning letters for various reasons such as a carrier being already scheduled to undergo a facility audit, the threshold recorded in the CVOR system being incorrect or a more stringent sanction about to be imposed. However, an additional 10% of the same sample selected was not sent warning letters and no explanations were documented.

We followed up on the carriers who were sent warning letters and found that 80% of them had reduced their incidents of non-compliance and were under their threshold levels six months later. An assessment conducted by the Ministry in February 1995 determined that 77% of carriers that received warning letters improved their performances and did not require interviews or audits.

We found that generally the Ministry was not assessing the status of carriers on a timely basis. At the time of our review, there was a backlog of 650 carrier records awaiting analysis to determine what subsequent interventions were required.

Recommendation

To increase the effectiveness of the warning letter process in improving compliance with safety legislation, the Ministry should:

- document the rationale for not taking action against carriers that exceed their thresholds and are not sent warning letters;
- assess the status of all carriers that have received warning letters every six months until they either come under their thresholds or require a more stringent sanction; and
- ensure that appropriate action is taken to eliminate the current backlog.

Ministry Response

In response to the need for tougher truck safety measures and the desire for earlier identification of commercial vehicle companies with poor safety records, the Ministry revised its review triggering mechanism in August 1995 so that Commercial Vehicle Operator's Registration progressive interventions could be taken more quickly. The Ministry now issues warning letters, conducts interviews or audits and initiates sanctions at the revised levels of non-compliance. The success of this initiative is indicated by the increased number of carriers brought forward for corrective action.

This has also resulted in a backlog of warning letters, interviews and sanctions. The warning letter backlog is being actively dealt with through additional staff resources. In addition, staff responsibilities have been restructured to ensure the record analysis process is as efficient as possible. All decisions not to send a warning letter to a carrier will be documented.

Again, Target '97 has made several recommendations that will improve the efficiency and effectiveness of the Commercial Vehicle Operator's Registration system including a proposal that would impose automatic, regulated sanctions as opposed to administrative interventions for carriers with declining safety performance. This recommendation and others will introduce new ways of dealing with non-compliant carriers that will rely less on ministry resources.

CARRIER INTERVIEWS AND AUDITS

The CVOR system automatically produces an "action list" of carriers that have received warning letters but have not improved at the required rate. The action list is analyzed to ensure that the CVOR information is accurate and complete. If the analysis determines that the expected improvement is not being made, the Ministry will interview or audit the carrier. During the 1996 calendar year, the Ministry conducted 76 carrier sanctioning interviews.

We tested the action list produced by the system for a one-week period in June 1996. The Ministry determined that a number of carriers did not need to be interviewed or audited. The decisions not to proceed with an interview or audit were documented in all cases.

The Ministry did not have a policy requiring interviews and audits to be done within a specified period. Nevertheless, we reviewed the records of the carriers to be interviewed or audited six months later and found that no interviews or audits had taken place and nearly all the carriers tested were still above their allowable threshold limits. Consequently, we could not assess the outcome of the interview process. However, an analysis conducted by the Ministry in 1995 determined that 80% of the carriers interviewed improved their performance over the subsequent six months and averaged 34% fewer convictions, detentions and accidents.

Recommendation

To ensure that carrier interviews and audits contribute to increased compliance with vehicle safety legislation, the Ministry should:

- assess the interview and audit process to determine whether it is achieving acceptable results and, if not, consider modification of this activity; and
- establish guidelines for the appropriate time periods within which to complete carrier interviews and audits.

Ministry Response

In addition to revising the thresholds for corrective action with carriers having poor Commercial Vehicle Operator's Registration (CVOR) safety records, the Ministry notes that the one-month period in June 1996 chosen for interview/audit follow-up was immediately before the Branch's relocation from Toronto to St. Catharines, and it took several months to replace staff who chose not to relocate. The office move resulted in a temporary staff shortage which contributed to a backlog of interviews and audits. Staffing issues have now been successfully resolved and the backlog is being addressed.

In addition, the Ministry has initiated a study to update the 1995 analysis of the effectiveness of the interview and audit processes. Modifications and changes to these programs will be developed, tested and implemented to reflect the Ministry's commitment to implement the Target '97 CVOR truck safety recommendations.

The Ministry's current time period guidelines to prepare an analysis of a carrier's record and complete the interview and audit process will be reviewed given the importance and effectiveness of the interview program and the recent expansion of the role of the CVOR intervention process to include new priority initiatives such as wheel separation follow-up, Automated Vehicle Identification Ontario carrier CVOR record clearance, ministry contractor safety record verification and so on. The guidelines will be modified to reflect current interview and audit program priorities and the realistic ability to deliver program initiatives.

CARRIER SANCTIONS

If an interview or audit does not bring the carrier into compliance, the Ministry may send a Notice of Sanction. This Notice informs the carrier that the Ministry will suspend, limit or revoke its operating privileges on a specific date unless the carrier shows cause why it should not be sanctioned. If the carrier cannot satisfy the Ministry at a show-cause meeting, the sanction will be ordered.

At the time of our review, there were 130 carriers awaiting a sanctioning decision from the Ministry. We randomly selected a sample of carriers from this list and verified that all were above their threshold limits. The Ministry had categorized half of the carriers in our sample as high priority and one as medium priority. The rest had no documented ranking.

The Ministry does not have guidelines regarding the appropriate amount of time within which to make a sanctioning decision. However, we found that the carriers we sampled had been on the list for, on average, one year, with the longest time being 2.5 years. At the time of our audit, all of these carriers were still operating. The carrier in our sample assessed as medium priority was chronically non-compliant and had a number of interviews, facility audits and previously initiated sanctions dating back to 1988. The carrier had most recently been identified for sanction in 1995 and was still awaiting a decision. This carrier, as of January 1997, had a rating that was double its predetermined threshold level.

Recommendation

To ensure that the sanctioning process is effective in contributing to vehicle safety and does not unduly delay getting unsafe vehicles off the road, the Ministry should:

- **make sanctioning decisions promptly; and**
- **assess the sanctioning process to determine whether it is achieving acceptable results and, if not, modify the process.**

Ministry Response

In recognition of the need to ensure sanction decisions are made promptly, the Ministry introduced a series of Commercial Vehicle Operator's Registration enhancements last fall. These initiatives included anti-sanction avoidance provisions in the Highway Traffic Act and a number of Commercial Vehicle Operator's Registration reporting requirements such as changes to fleet size, Ontario mileage, and so on, which will expedite the sanction analysis process. The addition of more staff and the restructuring of their responsibilities will also improve the time period. Program changes arising from the Target '97 Task Force recommendation to regulate automatic sanction thresholds will also improve the process in the longer term.

An analysis of the impact of sanctions on subsequent safety performance will be conducted and completed. In addition, changes under development to the sanction processes will streamline the sanction decision process.

ENFORCEMENT PROCESS

All sanctioning decisions can be appealed to the Licence Suspension Appeal Board. In 1995, the most recent year for which summary information was available, six carriers appealed ministry sanctions to the Licence Suspension Appeal Board. We noted that the time elapsed between the filing of appeals and rendering of decisions ranged from 12 to 18 months. For five of the six appeals, the Board upheld the Ministry's sanctioning decision. Two carriers appealed the Board's decision to the Ontario Court. At the time of our audit, neither of these appeals had been settled, and the carriers were still in operation.

The Target '97 Task Force on Truck Safety recommended that the Board provide more timely decisions. The Task Force also made several other recommendations to enhance carrier

enforcement such as revamping the CVOR system, clearly establishing intervention and sanction levels, and introducing fines and automatic fleet suspensions.

The threshold level at which sanctioning begins is three times the industry's historical average violation rate, and some carriers exceed this by additional multiples. A number of carriers involved in the sanctioning process are chronically non-compliant with road safety legislation. The Ministry's enforcement process gives carriers extended periods of time in which to reduce their detentions, convictions and accidents. The process has also experienced a number of delays which increased the length of time it takes to get unsafe vehicles off the road.

Recommendation

To ensure that non-compliant carriers are sanctioned on a timely basis and unsafe vehicles are promptly removed from the road, the Ministry should:

- conduct a full review of each stage of the enforcement process to determine if each activity is operating effectively, and if necessary, modify or eliminate unproductive activities; and
- assess and, where appropriate, implement alternative sanctioning processes, such as those suggested by the Task Force on Truck Safety.

Ministry Response

A review of each stage of the intervention process is being conducted to ensure that the program is operating as effectively as possible.

Changes under development include:

- *Commercial Vehicle Operator's Registration regulated intervention reforms resulting from Target '97 and other recommendations that will enhance enforcement practices;*
- *effectiveness analysis of warnings, interviews and audits on subsequent safety compliance;*
- *sanction procedures and process streamlining;*
- *additional analytical staff with restructured responsibilities;*
- *implementation of Bill 92 anti-avoidance provision and Commercial Vehicle Operator's Registration enhancements; and*
- *tightening facility audit high-risk carrier selection criteria.*

The recently passed Bill 138 imposes an immediate roadside impoundment of critically defective vehicles. Criteria have been jointly established between government and industry as part of the Target '97 process that will form the basis for the impound. This will be the first such program in North America and will be the quickest and most efficient method of removing unsafe vehicles from the road. The economic deterrent value of a 15-day impoundment period is significant and is expected to be a strong impetus for industry to operate safe equipment.

Further, the Ministry will flag the Commercial Vehicle Operator's Registration records of all carriers who have had a vehicle impounded or have lost a wheel for follow-up action if required.

CARRIER REGISTRATION AND LICENSING

COMMERCIAL VEHICLE OPERATOR'S REGISTRATION

The *Highway Traffic Act* requires commercial vehicle operators to register for a Commercial Vehicle Operator's Registration (CVOR) certificate. CVOR registrants are responsible for the legislative requirements regarding the mechanical condition and the safe operation of their vehicles. All operators of vehicles weighing more than 4,500 kilograms or transporting 10 or more passengers must apply for a CVOR certificate. The Act states that the Ministry shall issue a CVOR certificate to every person who applies for one unless that individual is the holder of a CVOR certificate that is under suspension or subject to a fleet restriction. During the 1996/97 fiscal year, the Ministry received over 4,000 CVOR applications.

The CVOR system provides a profile of each operator's safety performance by tracking the accumulation of convictions, detentions and accidents. When performance reaches unacceptable levels, the Ministry initiates sanctions against the operator.

We reviewed the CVOR process and found that the Ministry verifies the applicant's company name and reviews the CVOR database to ensure no applicant with the same name is already registered. However, the Ministry does not have documented procedures in place to ensure the accuracy and completeness of the information provided by the operators. The Ministry microfiches all CVOR applications for a permanent record and shreds the original documents. The Ministry could not locate more than 50% of the microfiche records we requested.

The CVOR database contained records for over 80,000 registrants. The Ministry does not conduct a regular review or updating of these records for changes in address, corporate officers or fleet size. The Ministry uses fleet size to calculate a carrier's sanctioning threshold. CVOR holders are required to report to the Ministry any change in name, address or corporate directors. The Ministry has also introduced legislation requiring carriers to report estimated distances travelled and any change in their fleet size. However, there was no system in place to ensure that CVOR records were current, accurate and complete or to identify and remove inactive registrants. The Target '97 Task Force recommended an annual renewal process for the CVOR system.

During our testing we found that, on average, 25% of our sample of operator convictions arising from roadside inspections and facility audits were not recorded on the CVOR records. The Ministry was aware of the problem and informed us that this conviction information was generated by another ministry and, therefore, an inter-ministry study was required to address the problem. Since the Ministry uses the CVOR system for inspection and enforcement purposes, it is important that all convictions be recorded to ensure that timely and appropriate sanctions are imposed as necessary.

Recommendation

To help ensure the integrity of the Commercial Vehicle Operator's Registration system and database, the Ministry should:

- develop and document policies and procedures to ensure the accuracy and completeness of the information provided on applications for Commercial Vehicle Operator's Registration certificates;
- improve controls over the storage, retention and retrieval of microfiche records;
- ensure that carrier information on the system database is valid and up to date; and
- implement procedures to ensure that all carrier convictions are promptly and accurately recorded on the Commercial Vehicle Operator's Registration system.

Ministry Response

The Ministry will ensure that documented policies and procedures are in place to ensure the accuracy of the information provided by applicants and to reflect the ongoing enhancements to the Commercial Vehicle Operator's Registration program. The introduction and implementation of the Commercial Vehicle Operator's Registration certificate renewal requirement will also ensure greater database integrity. This along with other initiatives that will improve Commercial Vehicle Operator's Registration data integrity were the subject of legislation passed last fall and embodied within many of the Target '97 recommendations. For example, this new legislation will promote greater database integrity with respect to company fleet size, distance travelled in the province and corporate officers and shareholders and ensure that the information is accurate and up to date.

The Ministry is committed to ensure that convictions are promptly and accurately recorded on the operator's record and discussions with other ministries where appropriate have been initiated.

COMMERCIAL CARRIER LICENSING

Pursuant to the *Truck Transportation Act*, all commercial carriers must obtain a ministry operating licence to provide for-hire trucking services in Ontario. To obtain a licence the applicant must be insurable, hold a CVOR certificate, not be an undischarged bankrupt and demonstrate fitness to carry on the business. Fitness is determined through a safety fitness assessment based on criteria established under the Act. The applicant must also pass a written competency test which covers areas such as safety, vehicle maintenance, insurance, relevant legislation and record-keeping. According to the Ministry there are over 28,000 licensed carriers in the province and, during the 1996/97 fiscal year, the Ministry received 2,650 applications for a commercial carrier licence.

We found that the Ministry did not have procedures in place to assess carrier applications as required by legislation. For example, the Ministry did not perform the required assessments of applicants' past conduct or check for convictions under various Acts including the *Highway Traffic Act* and the *Transportation of Dangerous Goods Act*. In 1988 the Ministry produced a licensing manual which established procedures to follow when assessing applications. However, these procedures were not being used by ministry staff, and new procedures had not been developed.

At the time of our audit, the Ministry was drafting a proposal to repeal the *Truck Transportation Act's* licensing requirements so that carriers would no longer require licences to operate as for-hire carriers. We were informed that the requirements relating to carrier safety would be retained, including assessments of the applicants' safety fitness.

Recommendation

To help ensure that only appropriately qualified applicants are licensed, the Ministry should develop policies and procedures for assessing factors such as safety fitness as required under the *Truck Transportation Act* or any replacement legislation.

Ministry Response

The integrity of the Commercial Vehicle Operator's Registration database is expected to improve as a result of planned revisions, and, in turn, the Ministry's ability to evaluate the fitness of an applicant will also improve. Further, all applicants must complete a safety fitness test that establishes the carrier's knowledge of safety requirements in the province.

Formal policies will be developed to reflect proposed legislative changes to the Truck Transportation Act/Motor Vehicle Transport Act for for-hire truck licensing programs. More specifically, the for-hire licensing function required by these Acts is planned for devolution, so that more emphasis can be directed to the Ministry's core safety business.

PROGRAM ADMINISTRATION

The Safety and Regulation Division is responsible for setting and enforcing safety standards and promoting highway safety. The inspection staff of one of the five regions report to the Safety and Regulation Division. Staff of the other four regions report to the Operations Division and, although a committee structure is in place to facilitate communication, most of the inspection staff are not directly accountable to the Safety and Regulation Division.

Additionally, as we noted previously in this report, policies and procedures were lacking in several of the areas we reviewed, and area offices' inspection activities varied significantly. We also previously noted substantial workload backlogs in the enforcement area.

The Ministry's goal for truck inspection stations is to have these stations open 24 hours a day, seven days a week but this is not possible due to limited resources. Consequently, the Ministry

tries to have inspection stations open at different times, in an unpredictable manner, including during non-business hours such as evenings, nights, weekends and holidays. However, there were no ministry-wide policies establishing hours of operation for truck inspection stations, staff scheduling, numbers of staff per shift or policies for area patrol. Based on our visits to four area offices, we found that two offices generally set their schedules to reflect 65% day, 20% afternoon and 15% night shift coverage. The other two offices generally set 80% of their shift schedule during the day. We also found that area patrols were generally scheduled only during day shifts.

In 1994, through a project called Enforcement '97, the Ministry commenced a review of the existing practices at truck inspection stations with a view to enhancing operational effectiveness. Based on recommendations from this review, the Ministry subsequently piloted a mobile inspection unit and currently plans to purchase nine more mobile units. The Ministry also implemented an automated clearance system which allows carriers with good safety records to bypass inspection stations. At the time of our audit, the Ministry was planning to hire additional staff, but had not conducted a study of the staff allocation required to meet the changes recommended.

Recommendation

To improve administration and to help ensure that commercial vehicle safety activities are delivered more economically, efficiently and effectively, the Ministry should:

- review staff reporting relationships to determine whether current lines of accountability are appropriate; and
- develop guidelines for truck inspection station operating hours, staffing and scheduling, as well as for area patrol activities.

Ministry Response

The current staff reporting structure has evolved over many years. The Ministry will review staff reporting relationships to determine if the current reporting structure continues to support the effective and efficient delivery of truck safety activities given the enhancements that have taken place in our truck safety programs over the past few years.

The scheduling of truck inspection station hours of operation, staffing and scheduling of area patrol activities is in part locally determined and reflects the presence or absence of seasonal trucking operations, number and types of truck inspection station bypass routes, truck volumes by route, day, month, hour and so on in each area of the province. A standardized prescriptive approach has not worked well in all district areas.

However, the Ministry agrees that guidelines that have been in existence since the 1980s will be reviewed and updated as necessary to reflect changes to provincial enforcement priorities and key performance activities. The guidelines will reflect new initiatives, such as the truck safety components of Bill 138 which provides for the impoundment of unsafe commercial vehicles at strategic truck inspection stations planned for extended operations on a 24-hour-a-day, seven-day-per-week basis.

MOTOR VEHICLE INSPECTION STATIONS

LICENSING AND INSPECTION

Motor vehicle inspection stations, typically local garages, are licensed by the Ministry to have vehicles inspected and safety-certified. Stations register their licensed mechanics with the Ministry. All commercial vehicles must be periodically inspected and safety-certified by a registered mechanic. There are about 13,000 licensed Motor Vehicle Inspection Stations and 48,000 registered Motor Vehicle Inspection Mechanics in the province.

Stations must apply to the Ministry for a Motor Vehicle Inspection Station (MVIS) licence in order to conduct safety inspections on commercial vehicles. The application lists the licensed mechanics available for registration. Ministry enforcement officers visit applicants to ensure that the station has a properly sized facility, appropriate tools and licensed mechanics. If all requirements are met, an MVIS licence is issued that allows the station to inspect both commercial and passenger vehicles. During the 1996/97 fiscal year, the Ministry granted over 1,200 new MVIS licences. Commercial carriers can obtain an MVIS licence and safety-certify their own vehicles.

Prior to 1988, ministry policy required the inspection of all MVIS licensees on a cyclical basis. The Ministry no longer has a periodic inspection process in place, as cyclical inspections of almost 13,000 licensees would be too costly. The Ministry also informed us that the cyclical inspection process did not result in a justifiable number of incidents of non-compliance so resources were directed to other activities. Investigations are generally only conducted on MVIS licensees when complaints are received from the public or ministry enforcement staff. Few complaints have been received regarding carriers with their own MVIS licences. We visited five area offices and found that the number of investigations in the previous year conducted on carriers with their own MVIS licences ranged from none to ten.

We noted that the Ministry does not regularly generate information to identify high-risk stations for inspection purposes. For example, to help identify the misuse of safety certificates, ministry procedure recommends a periodic comparison of the number of certificates provided to each station relative to the number of mechanics available to perform vehicle inspections. However, such comparisons were not being done on a regular basis.

When the Ministry detects non-compliance with legislation, such as inspections which are incompetently performed, it may revoke a station's licence or the mechanic's registration. During the 1996/97 fiscal year, the Ministry revoked eight MVIS licences and the registrations of two mechanics. However, the Ministry did not have documented procedures establishing criteria specifying when a recommendation to revoke a licence or registration is warranted.

Recommendation

To ensure adequate monitoring of Motor Vehicle Inspection Stations, the Ministry should:

- implement a risk-based approach for selecting Motor Vehicle Inspection Stations for inspection;
- regularly generate information designed to highlight areas of concern for investigation and follow-up;
- require increased monitoring and more frequent inspections of those carriers licensed to inspect their own vehicles; and
- establish uniform criteria for determining when an inspection station's licence or a mechanic's registration should be revoked.

Ministry Response

The Ministry remains committed to a Motor Vehicle Inspection Station (MVIS) inspection program based on risk. The Ministry will formalize and document specific criteria for the selection of high-risk stations (targeted) for inspection and audit. Criteria such as plate removals, out-of-service roadside detention rates, disproportionately high issuance of safety standard certificates and trucking companies which are also MVIS stations will be reviewed.

The Ministry will complete an evaluation and identification of high-risk MVIS stations (including self-certifying trucking company stations).

In the longer term, the Ministry has initiated a review of the MVIS program in 1996 and will include enhancements to ensure that high-risk stations are routinely identified and greater access is provided to field staff of system data for enforcement purposes. This review will include the potential for alternate means of control and administration of the MVIS network. The Ministry will also strengthen the MVIS revocation guidelines for enforcement staff.

COMMERCIAL VEHICLE CERTIFICATION

Licensed stations purchase safety standard certificates with removable stickers from the Ministry and apply the stickers to the commercial vehicles that pass their safety inspections. All commercial vehicles are required to display a safety standard sticker as evidence that they have been inspected by a registered mechanic. Trucks are to be certified at least annually and buses semiannually. Licensed stations are required to retain the safety standard certificates noting such information as the inspection date and vehicle inspected.

Motor vehicle safety standard certificates and their accompanying vehicle stickers are purchased by Motor Vehicle Inspection Stations from the Ministry in booklets of 10 for a standard fee. Each certificate and its sticker has a sequential control number. The Ministry keeps a record of the control numbers of the certificates sold to licensees. However, there are no centralized records of certificates or stickers reported lost or stolen, and the Ministry does not track the stickers issued by stations. During the audit, both ministry staff and police officers

expressed concerns regarding lost or stolen stickers being applied to unsafe vehicles. To address these concerns, legislation was proclaimed in October 1996 to substantially increase fines for the misuse of safety stickers.

The Ministry relies on its enforcement officers to verify that a safety sticker is affixed to each vehicle they inspect. However, no centralized listing is available to help enforcement staff to determine if a safety sticker is valid. To determine if a sticker has been properly issued, enforcement staff have to trace certificate sales to the licensee and review the licensee certification records. This process is time consuming and may only be justifiable on a random selection basis.

Recommendation

To increase assurance that safety stickers are affixed only to properly inspected vehicles and to help prevent the misuse of safety stickers, the Ministry should:

- improve controls over the recording of both stickers issued and stickers reported lost or stolen; and
- provide enforcement staff with a convenient method of determining the validity of safety stickers and certificates.

Ministry Response

While lost and stolen inspection sticker stock can now be retrieved by motor vehicle inspection station, the Ministry will provide a more convenient method of determining the validity of safety stickers and certificates for roadside enforcement purposes. Expanded enforcement access and quality assurance and audit functions will be included as a component of the Motor Vehicle Inspection Stations review project's mandate.

In addition, carriers identified through roadside detentions and those without a valid annual inspection sticker are now in the high-risk priority audit category and targeted for immediate inspection. Vehicles without valid annual inspection stickers have recently been subject to substantially increased fines. The impact of these fines and follow-up enforcement actions are expected to have a strong deterrent effect.

CHAPTER FOUR

Follow-up of Recommendations in the 1995 Annual Report

4.00

Since 1993 it has been our practice to make specific recommendations for corrective action by ministries and agencies, and two years after publication of the recommendations in our *Annual Report* to follow up on the status of action taken. This chapter provides some background on the audits comprising the Value for Money Chapter of our *1995 Annual Report* as well as the current status of implementing the recommendations made. We are pleased that in many cases our recommendations have been either fully or substantially implemented. However, in several cases, progress has been slow or is ongoing. In cases where the recommendations have not been implemented, or are still in the process of implementation, a brief description of the current status of action taken by the ministries is provided.

MINISTRY OF COMMUNITY AND SOCIAL SERVICES - CHILD CARE ACTIVITY - SECTION 3.01

BACKGROUND

The Ministry of Community and Social Services' Child Care Activity is operated under the authority of the *Day Nurseries Act* and Regulation. Under the Activity, the Ministry's main responsibilities are to license and regulate child care centres to ensure the health and safety of children, and to provide funding to municipalities, approved corporations and First Nations toward the provision of subsidized care to children of families demonstrating financial and social need.

In our 1995 audit we assessed the Ministry's procedures for monitoring child care services to determine the extent to which: legislative requirements and established ministry policies and directives were being complied with; and the cost effectiveness of service delivery was being measured and reported.

We found that improvements were needed in the Ministry's monitoring procedures to ensure that: child care centres are properly licensed; only eligible families receive subsidized services;

wage subsidy payments are spent for the intended purposes; and an effective accountability framework exists for service providers.

CURRENT STATUS OF RECOMMENDATIONS

The Ministry has substantially implemented our recommendations relating to the following areas:

- Licensing and Enforcement; and
- Wage Subsidies.

However, the Ministry has made only limited progress with respect to the following recommendations.

MINISTRY'S REFUSAL TO ISSUE NEW LICENCES

Recommendation

To ensure that new child care licences are issued appropriately, the Ministry should:

- *define both "not competent" and "in a responsible manner" as used in the Day Nurseries Act and make its assessments based on those definitions; and*
- *develop guidelines stipulating the circumstances under which a criminal reference check provides grounds for refusing a licence.*

Current Status

In April 1996 the Ministry issued an internal directive and guideline to aid directors in making decisions with respect to issuing or refusing to issue a licence to a new applicant. However, additional work remains to be done to clarify the specific circumstances under which directors should refuse to issue or renew a child care licence.

APPLICATION OF THE NEEDS TEST

Recommendation

The Ministry should ensure consistency and equity in the application of needs tests across the province.

Current Status

The *Ontario Child Care Review Report* issued in August 1996 identified the importance of simplifying and streamlining needs testing to ensure consistency throughout the province. Consequently, the Ministry is proposing a change from "needs testing" to "income testing" and intends to prepare a cabinet submission to address this issue during 1997/98.

MINISTRY REVIEW OF COMPLETED NEEDS TESTS

Recommendation

To ensure that only eligible families receive subsidized day care, the Ministry should conduct its needs test file reviews based on risk assessments and in a timely and effective manner. Where deficiencies are identified, the Ministry should ensure that appropriate corrective action is taken.

Current Status

As a result of the Child Care Review noted previously, the Ministry expects to develop a new policy direction for cabinet decision during 1997/98. The implementation plan for the new policy will include a mechanism for ensuring that municipalities are conducting the income test as intended.

ACCOUNTABILITY

Recommendation

To improve accountability, the Ministry should ensure that:

- *service levels expected of municipalities and approved corporations are clearly specified; and*
- *significant variances between actual service levels and budgeted levels are followed up and appropriate corrective taken where necessary.*

Current Status

The Ministry is developing a funding strategy based on community needs and existing levels of service. As a result of decisions by the Who Does What Panel, implementation of this strategy by transfer payment service delivery agents is expected to take place after January 1, 1998.

MINISTRY OF COMMUNITY AND SOCIAL SERVICES - FACILITIES FOR PEOPLE WITH DEVELOPMENTAL DISABILITIES - SECTION 3.02

BACKGROUND

Under the authority of the *Developmental Services Act*, the Ministry of Community and Social Services in 1995 operated nine facilities and funded nine non-profit agencies that provided a range of supports and services for approximately 3,000 people with developmental disabilities. Independent boards of directors governed the agencies.

The Ministry has two stated objectives for the care of people with developmental disabilities residing in facilities:

- to enhance and maintain the quality of life of facility residents by providing a full range of residential, highly specialized treatment, and training programs and services; and
- to de-emphasize the institutional approach and emphasize the normalization principle in the care of people with developmental disabilities by reducing the number of residents living in institutions through the provision of programming to prepare clients for community living.

Our 1995 audit assessed the Ministry's procedures for managing its facilities and for monitoring the facilities operated by agencies to determine the extent to which:

- cost effectiveness in delivering services and the achievement of program objectives were measured and reported; and

-
- legislative requirements and Ministry policies and procedures were complied with.

We noted deficiencies in the Ministry's service delivery, the achievement of program objectives and compliance with ministry policies and procedures. As a result, we made a number of recommendations for improvement.

CURRENT STATUS OF RECOMMENDATIONS

The Ministry has taken some action on all of our recommendations made in 1995 and has substantially implemented recommendations relating to the following areas:

- Management Information Systems;
- Serious Occurrences; and
- Personal Needs Allowance.

However, the Ministry has made only limited progress with respect to the following recommendations.

MONITORING AGENCY SERVICE DELIVERY

Recommendations

To provide assurance that the quality of care is adequate at the agency-operated facilities, the Ministry should perform regular inspections under the Developmental Services Act for the adult population residing in the facilities.

The Ministry should establish an ongoing review mechanism similar to the one conducted under the Ministry's 1991 Health and Safety Audits.

Current Status

The Ministry has started to identify broad client outcomes and ways to measure how clients benefit from services provided in each of its program sectors with a view to developing individual support agreements. Starting with the 1997/98 fiscal year, the Ministry expects to phase in individual support agreements for all individuals in service provider organizations over a three-year period. The purpose of these agreements will be to promote and facilitate individualized approaches to services and supports to better match the services of agencies to the needs of families and individuals. The agreement begins to quantify the degree and cost of services and supports received.

QUALITY OF CARE

Recommendations

The Ministry should improve its procedures to ensure that all persons with developmental disabilities residing in Ministry- and agency-operated facilities receive the same quality of care throughout the province.

The Ministry should also monitor the agencies and its directly operated facilities to measure their performance in meeting the Ministry's objectives.

Current Status

The Ministry informed us that it would be establishing standards in key areas of developmental services. It is expected that these standards will be applied to both Ministry-operated facilities and service provider organizations during the 1997/98 fiscal year.

The Ministry is also developing an Annual Agency Status Report for implementation by April 1, 1998. This tool requires service provider organizations to report results (actuals) against projected provision of services and supports.

FUNDING

Recommendations

The Ministry should ensure that its resource allocation process is equitable, efficient and effective and promotes cost effectiveness.

The Ministry should ensure that its funding and reconciliation processes promote cost effectiveness and provide timely monitoring and evaluation of agency-operated facilities for people with developmental disabilities.

Current Status

Through the Levels of Support Project, the Ministry has developed a "Staffing Resources Assessment" tool that is designed to measure how staffing resources are currently used for clients in residential developmental services programs. This tool will be reviewed and its future use will be determined during 1997/98.

However, until more precise ways of costing individual levels of support plans are established, there will be some inequities in the resource allocation process which will continue to be tied to historical base budgets and government priorities.

BEHAVIOURAL TRAINING AND TREATMENT

Recommendation

The Ministry should complete its peer review process for all its facilities and ensure that the Ministry's Standards for the Use of Behavioural Training and Treatment Procedures are being followed by the facilities.

Current Status

The Ministry has put the peer review process on hold pending the completion of current work around behavioural standards. A provincial working group is currently reviewing draft provincial standards for behavioural support strategies. The standards will focus on required features, expectations and protocols for the Developmental Services System. Standards will be linked to professional standards that are currently under development by the Ontario Association for Behavioural Analysis.

ATTENDANCE MANAGEMENT

Recommendation

The Ministry should ensure that all facilities have procedures in place to monitor absenteeism and take corrective action where necessary.

Current Status

Attendance improvement is a ministry focus for 1997/98. The Ministry is currently investigating the broad use of an "Attendance Enhancement Program" that will focus on prevention and having employees return to work from short-term disability and workers' compensation.

For agency-operated facilities, as with other transfer payment agencies, the Ministry's area offices are to ensure that during the 1997/98 service contract negotiations period the Boards of Directors have attendance management protocols in place.

MINISTRY OF CONSUMER AND COMMERCIAL RELATIONS - BUSINESS DIVISION PROGRAM - SECTION 3.03

BACKGROUND

The mandate of the Business Division is to promote a fair and informed marketplace that supports a competitive economy in Ontario. In 1995 division responsibilities included registering and regulating certain businesses; resolving marketplace issues; mediating consumer complaints and enforcing consumer protection legislation; and educating consumers and businesses.

We assessed whether the Business Division had adequate procedures in place to measure and report on program effectiveness and to promote a fair and informed marketplace. We recommended that the Ministry adopt a more systematic and risk-based approach to effectively prioritize marketplace issues and develop solutions for them, and establish more meaningful performance indicators to measure and report on the effectiveness of the Business Division's programs.

CURRENT STATUS OF RECOMMENDATIONS

In June 1996 the government passed the *Safety and Consumer Statutes Administration Act, 1996*, enabling the Ministry to transfer to designated administrative authorities certain powers and duties relating to the administration of some key regulatory acts such as the *Real Estate and Business Brokers Act* and the *Motor Vehicle Dealers Act*. The boards of these authorities consist of a diversity of industry, consumer and government representatives. The Ministry had accepted and implemented all of our recommendations prior to the transfer of responsibilities.

The Minister of Consumer and Commercial Relations has administrative agreements with these authorities that set out the terms for the administration of the regulatory functions. As part of the agreements, the authorities are required to submit annual reports to the Minister which include performance statistics for monitoring consumer protection and marketplace standards.

MINISTRY OF CONSUMER AND COMMERCIAL RELATIONS - ELEVATING DEVICES PROGRAM - SECTION 3.04

BACKGROUND

The objective of the Elevating Devices Program is to minimize safety risks associated with elevating devices. Most of the devices are passenger elevators. Other devices include escalators, lifts and hoists. The Program operated under the authority of the *Elevating Devices Act* and in 1995 was administered by the Technical Standards Division of the Ministry.

In 1995 we assessed whether the Ministry had in place: an adequate system of inspections for elevating devices to ensure that safety risks were minimized; and adequate procedures to measure and report on the effectiveness of the Program. We recommended that all elevating devices be inspected based on risk assessment and within their inspection cycles, and that devices found in violation of safety standards be appropriately reinspected. As well, better indicators were needed to measure and report on the Program's effectiveness in ensuring the safety of elevating devices.

CURRENT STATUS OF RECOMMENDATIONS

We noted that prior to the transfer of responsibilities as explained below, the Ministry had substantially implemented all of our recommendations.

Since our audit the government had passed the *Safety and Consumer Statutes Administration Act, 1996*, enabling the Ministry to transfer the responsibilities of its Technical Standards Division to a newly created private sector corporation, the Technical Standards and Safety Authority. The Authority is led by a board of directors representing various industries, consumers and the government and is responsible for the administration of acts and regulations, including the *Elevating Devices Act*.

Additionally, the Minister of Consumer and Commercial Relations has an administrative agreement with the Authority that sets out the terms for the administration of the regulatory functions. As part of the agreement, the Authority is required to submit an annual report to the Minister which includes performance measures for monitoring public safety.

MINISTRY OF ECONOMIC DEVELOPMENT, TRADE AND TOURISM - JOBS ONTARIO COMMUNITY ACTION PROGRAM - SECTION 3.05

BACKGROUND

The jobsOntario Community Action program (jOCA) was introduced by the Ontario government in its 1993 *Budget*. The purpose of the program was to assist community economic development by funding activities such as training and development initiatives and the construction of community and recreational facilities. The government's initial funding commitment to

jOCA totalled \$300 million over a three-year period. The program, coordinated by the Ministry of Economic Development, Trade and Tourism, was delivered by six ministries.

In 1995 we assessed whether an effective administrative framework had been established for the program and whether adequate procedures were in place to approve or reject grants based on the criteria established for the program and to determine whether grant amounts were reasonable.

We found that an effective administrative framework had not been established for the program and that adequate procedures were not in place at the delivery ministries to assess grant proposals or to determine if grant amounts were reasonable.

CURRENT STATUS OF RECOMMENDATIONS

On July 21, 1995 the government announced that the program would not make any new commitments for community capital projects, pending a review of the program. The jOCA program was subsequently terminated. All legally binding agreements under the program were honoured. Our recommendations dealing with project monitoring and future cash disbursements were incorporated into jOCA Standards that were distributed to all participating jOCA ministries in January 1996. There are three approved projects remaining to be completed at an estimated cost of \$400,000 in the 1997/98 fiscal year.

MINISTRY OF FINANCE - GASOLINE, DIESEL FUEL AND TOBACCO TAXES - SECTION 3.06

BACKGROUND

The Ministry is responsible for collecting gasoline, diesel fuel and tobacco taxes. For the 1994/95 fiscal year these taxes generated \$2.8 billion in revenues to the province. Our audit assessed whether the province collected these taxes in a cost-effective manner, on a timely basis and in accordance with statutory requirements.

We concluded that in certain areas more effective procedures were needed to detect both intentional and unintentional non-compliance with the gasoline and diesel fuel tax statutes. We made a number of recommendations mainly directed at improving the Ministry's ability to better detect the illegal declaration, use and sale of tax-exempt gasoline and diesel fuel products.

CURRENT STATUS OF RECOMMENDATIONS

All of our 1995 recommendations have been substantially implemented by the Ministry. The recommendations related to the following matters:

- Reconciling Transactions between Collectors;
- Investigating Import/Export Discrepancies;
- Scheduling Inspections on an Irregular Basis;
- Laying of Charges When Violations Detected;
- Inspecting Petroleum Tankwagons at Border Crossings;

-
- Discussing the Feasibility of Implementing Electronic Data Interchange; and
 - Measuring the Effectiveness of Compliance and Enforcement Activities.

MINISTRY OF FINANCE - RETAIL SALES TAX - SECTION 3.07

BACKGROUND

The Ministry is responsible for the administration and enforcement of the *Retail Sales Tax Act*. The Act imposes an 8% tax on most retail sales, and in the 1994/95 fiscal year the province collected \$9 billion in retail sales tax. We conducted an audit in that year to assess the adequacy of the Ministry's tax collection procedures.

We concluded that the Branch can and should take more vigorous steps to reduce the tax gap and minimize the loss of taxes through the underground economy. Given the deterioration in the level of vendor audit coverage, we questioned whether compliance with the law was being adequately enforced and whether public confidence in the fairness of the tax system was being maintained.

CURRENT STATUS OF RECOMMENDATIONS

The Ministry has taken substantial action to implement our recommendations to:

- Conduct Research into the Underground Economy to Reduce the Tax Gap;
- Utilize the Computer System to Identify High-risk Vendors;
- Develop Risk-based Criteria for Selecting Vendors for Audit; and
- Increase the Audit Coverage of Small Vendors.

In its May 1996 *Report on Retail Sales Tax*, the Standing Committee on Public Accounts acknowledged the Ministry's commitment to assign 50 additional auditors to the small vendor population. The Committee requested the Ministry to provide a report within two years detailing the impact of these new auditors. The Ministry informed us that the additional auditors assigned to date have conducted audits which have generated millions of dollars in additional taxes owing to the province.

The remaining recommendation from our 1995 audit is, as yet, only partially implemented as explained below.

CROSS-REFERENCING INFORMATION FROM OTHER SOURCES

Recommendation

To identify non-registrants as well as vendors who may be under-remitting retail sales tax, the Ministry should compare its retail sales tax database with its other taxation databases and with other government databases such as the Ministry of Consumer and Commercial Relations' business registration database.

Current Status

The databases for the Retail Sales Tax and the Goods and Services Tax have now been matched, and anomalies and discrepancies are being followed up by both administrations. Other database matches for vendors such as with the Ministry of Consumer and Commercial Relations (business registration) and the Workers' Compensation Board (employers) are planned.

MINISTRY OF HEALTH - LAND AMBULANCE SERVICES - SECTION 3.08

BACKGROUND

The *Ambulance Act* governs and regulates the licensing and operations of ambulance services in Ontario. The Act and its Regulations specify the terms and conditions for licensing ambulance services, the qualifications required for ambulance attendants and dispatchers, vehicle and equipment standards, reporting requirements for ambulance services and general management practices. Operating under the Act, the objectives of the Ministry of Health's Emergency Services Activity are:

- to reduce death, disability and suffering due to sudden illness or injury; and
- to provide safe and efficient medical transportation for non-emergency patients.

In 1995 we assessed whether: program goals were clearly defined and whether performance was measured and reported; the Ministry ensured that resources were managed with due regard for economy and efficiency; and monitoring procedures were in place to ensure ambulance services complied with applicable legislation and policies.

CURRENT STATUS OF RECOMMENDATIONS

The Ministry has implemented or commenced action on all of the recommendations in our 1995 report. Recommendations relating to the following areas have been substantially implemented: Non-Emergency Patient Transfers; Unlicensed Patient Transfer Services; Working Hours; Financial Monitoring; Metropolitan Toronto Ambulance Service; Complaints and Investigations; and Information System.

With respect to our other recommendations, the status of actions taken in those areas is as follows.

PROGRAM EFFECTIVENESS – RESPONSE TIME

Recommendation

The Ministry should:

- *establish or refine performance expectations for various components of ambulance response time. Factors to be considered should include the nature of the emergency, the geographical environment and community size; and*
- *develop a system to measure and report on actual performance and take corrective action where necessary.*

Current Status

The Emergency Health Services Branch has established performance expectations for the various components. The Ambulance Response Information System is capable of providing the required reports. Central Ambulance Communications Centres management, the management of individual services and the regional offices are responsible for monitoring the time intervals for each segment. The Branch is working within the Who Does What initiative to define service performance standards.

PROGRAM EFFECTIVENESS - PRIORITY DETERMINATION

Recommendation

The Ministry should investigate why certain central ambulance communication centres have a high incidence of overstated priorities and take the necessary corrective action.

Current Status

In eastern Ontario, a distinct dispatch priority card index has been modeled and tested for use when the client is a health care institution. Following a review of the use of the index, the Branch completed a pilot project and evaluated: adherence to the index; and a more practical approach which uses the index as a guideline, both before and after seminars on applied logic and critical thinking training. The information obtained from these activities is being evaluated in light of the changes occurring to land ambulance services delivery under the Who Does What initiative.

QUALIFICATION REQUIREMENTS FOR AMBULANCE ATTENDANTS

Recommendation

The Ministry should reassess the qualification requirements for part-time and volunteer ambulance attendants.

Current Status

The Ministry has reassessed the qualification requirements for part-time and volunteer ambulance attendants. The Ministry has upgraded the Emergency Medical Care Assistant credential from a basic life support level to an advanced life support level and the credential name has been changed to Paramedic.

The qualification requirements for part-time and volunteer attendants are subject to ongoing review. The Branch is considering the possibility of requiring all part-time and full-time attendants to be qualified as Paramedics. The Branch contracted education specialists to review all continuing education delivery to all ambulance personnel. The Branch is reviewing the results of this study.

FUNDING/RESOURCE ALLOCATION

Recommendation

The Ministry should ensure that funds are allocated across the province based on an assessment of current needs.

Current Status

Under the current system, regional offices determine the allocation of funds for each geographical area within their responsibilities and adjust budgets according to need. However, the assessment of need and responsibility to fund land ambulance services will rest with municipalities by January 1, 1998. Through legislation and the monitoring and enforcement of service delivery standards, the Ministry will ensure the maintenance of service quality and delivery standards.

MINISTRY OF HEALTH - RESIDENTIAL SERVICES ACTIVITY - SECTION 3.09

BACKGROUND

The Ministry of Health's Long-Term Care Program is responsible for developing and implementing policies and programs to facilitate the effective delivery of health services to elderly persons and physically disabled adults. The Residential Services Activity funds and monitors the care of individuals residing in nursing homes and homes for the aged.

The establishment and operation of long-term care residential facilities are governed by the *Nursing Homes Act*, the *Homes for the Aged and Rest Homes Act* and the *Charitable Institutions Act*.

In 1995 we assessed whether program goals had been clearly defined and performance was being measured and reported, and whether the Ministry had adequate procedures in place to ensure that:

- applicable legislation and policies were being followed; and
- resources were being managed with due regard for economy and efficiency.

CURRENT STATUS OF RECOMMENDATIONS

Recommendations relating to the following areas of our 1995 report have been substantially implemented: Evaluation of Long-Term Care Reform; Implementation of Levels of Care Funding; Nursing and Personal Care Guarantee; Timeliness of Complaint Investigations; and Referral of Facilities to the Enforcement Unit.

With respect to our other recommendations, the status of actions taken in those areas is as follows.

SUPPLY OF LONG-TERM CARE BEDS

Recommendations

The Ministry should develop a target bed ratio and a strategy to meet the need for beds to cope with the shortage of beds which is predicted to arise.

Before allocating existing or new beds, the Ministry should determine where the need for additional beds is greatest.

Current Status

The Ministry has initiated a bed supply and distribution study that involves provider associations, placement coordination services and consumers to make recommendations on the number of additional beds Ontario will need in the future, and opportunities and incentives for redistributing existing beds.

COMPLIANCE WITH STRUCTURAL AND ENVIRONMENTAL STANDARDS

Recommendation

The Ministry should:

- *assess homes for the aged for structural and environmental deficiencies; and*
- *establish a plan to replace long-term care facilities that cannot meet structural and environmental requirements.*

Current Status

The Ministry is working with provider association representatives to develop a consistent new set of structural standards in concert with a new approach for the funding of long-term care facilities. A draft paper outlining the proposed new standards will be completed in 1997. A new approach to funding capital costs through variable accommodation payments will also be developed in 1997 and will include a new deadline for replacement of all sub-standard facilities.

STANDARD COSTS

Recommendation

The Ministry should use information on the costs of providing care and accommodation to:

- *verify the accuracy of the current standard rates for each funding category (nursing and personal care; programs and support services; and accommodation);*
- *develop standards to measure the efficiency of facilities in providing care; and*
- *develop models for staff mixes for the provision of nursing and personal care to arrive at appropriate funding levels.*

Current Status

Data for 1993 through 1995 has been collected and analyzed. As resources allow, adjustments to funding levels are to be considered. The Ministry advised us in 1997 that it "remains critically aware of significant variations in salaries for front line workers, and has implemented a \$28 million wage adjustment fund designed to standardize service levels despite wage variations."

RATE REDUCTIONS FOR BASIC ACCOMMODATION

Recommendation

To ensure fair treatment of all residents, the Ministry should review the current approach for assessing ability to pay to determine eligibility for rate reductions.

Current Status

The Ministry is reviewing the feasibility of an income- and asset-based system of rate reduction and has conducted a comprehensive survey of co-payment policies in other jurisdictions. With respect to sponsored immigrants, the province is currently working with the federal government on a new protocol to take action against those sponsors that default on their obligations.

COMPLIANCE MANAGEMENT

Recommendations

To ensure adequacy and consistency in annual reviews, the Ministry should establish guidelines for:

- *sample sizes of residents to be audited, taking into account criteria such as the size of the facility; and*
- *selecting additional samples based on audit findings from the previous sample.*

The justification for any decisions not to follow these guidelines should be documented.

Current Status

The Residential Services Branch has shared this recommendation with field staff and reinforced the need for appropriate sample sizes. The Branch is also reviewing its internal protocols and reporting mechanisms and intends to make the necessary amendments to written branch policies as appropriate.

24-HOUR REGISTERED NURSING COVERAGE

Recommendation

The Ministry should develop a plan with specific dates for bringing all nursing homes into compliance with regulatory requirements for 24-hour registered nursing coverage.

Current Status

The Ministry has eliminated the regulatory requirement for 24-hour registered nursing coverage effective July 18, 1996. The Ministry has assisted smaller facilities that will not have 24-hour coverage to develop plans to ensure resident safety.

PROSECUTIONS AND SANCTIONS

Recommendation

The Ministry should assess the effectiveness of sanctions and consider more frequent use of a variety of sanctions.

Current Status

There were three facilities under enforcement monitoring. No other sanctions have been considered since each of the operators is demonstrating some improvements in response to ministry directions.

REST AND RETIREMENT HOMES

Recommendation

The Ministry should develop a precise legal definition of a "nursing home" and "nursing care" to clarify which premises are required to be licensed under the Nursing Homes Act.

Current Status

The Ministry has indicated that there are no plans for provincial regulation of this industry at this time.

4.00

MINISTRY OF HEALTH - PRIVATE AND HOSPITAL LABORATORIES AND SPECIMEN COLLECTION CENTRES - SECTION 3.10

BACKGROUND

Laboratory tests assist the medical community in the diagnosis, prevention and treatment of disease. Specimen collection centres gather specimens and forward them to laboratories for testing. Most laboratory companies operate a number of such centres. The *Laboratory and Specimen Collection Centre Licensing Act* and its Regulations prescribe the conditions for owning, operating and licensing laboratories and specimen collection centres.

In 1995 we assessed the adequacy of procedures to ensure compliance with legislation and policies pertaining to the licensing and monitoring of laboratories and specimen collection centres.

CURRENT STATUS OF RECOMMENDATIONS

Recommendations relating to the following areas in our 1995 report have been substantially implemented: Ministry Inspection Process; Laboratory Proficiency Testing; and Licence Renewals.

With respect to our other recommendations, the status of actions taken in those areas is as follows.

OTHER SPECIMEN COLLECTION CENTRES AND PHYSICIAN OFFICE LABORATORIES

Recommendations

The Ministry should take action to bring all specimen collection centres under the same quality assurance provisions by correcting the deficiencies in the licensing legislation.

The Ministry should determine what laboratory tests can be conducted by physicians and then resolve the inconsistency between the Act and the Regulation.

Current Status

The Ministry indicated that planning has proceeded on the development of a quality improvement program and a restructured laboratory services delivery system to address these recommendations. Progress to date includes the following initiatives.

- An outline structure and process for a quality management program applicable to specimen collection centres and physician office laboratories has been developed and is currently being reviewed.
- Planning objectives have been issued which outline the general direction the Ministry will follow in restructuring laboratory services. Detailed planning guidelines are under development to identify standard issues to be addressed during the restructuring.
- Options for an integrated funding system for all laboratory services are being developed.
- Changes to existing legislation and policies are being planned to support the restructured system.

The Ministry anticipates that planning to support these major initiatives will be completed within the next two years.

MANAGEMENT BOARD SECRETARIAT - CORPAY - SECTION 3.11

BACKGROUND

The Management Board Secretariat is responsible for operating and maintaining the government's corporate human resources systems including the CORPAY payroll system, which was implemented in all ministries and several agencies during the 1992/93 fiscal year.

In 1995 we assessed whether CORPAY had proven to be an efficient and reliable payroll system and found that the ministries selected for review were generally satisfied with the reliability of the system. However, we recommended that the Management Board Secretariat assess the feasibility of other payroll processing alternatives and rationalize the many human resources information systems that were in use.

CURRENT STATUS OF RECOMMENDATIONS

PAYROLL PROCESSING ALTERNATIVES

The Management Board Secretariat is in the process of developing a detailed business case to compare alternative payroll processing options to the cost of operating CORPAY. The business case is expected to be completed by the end of September 1997.

HUMAN RESOURCES INFORMATION SYSTEMS

The Management Board Secretariat in conjunction with the Human Resources Council, a forum for ministry and agency human resources directors, has completed a business case supporting the acquisition and implementation of a single, standard, government-wide human resources management information system. In December 1996 the Management Board of Cabinet approved a request to proceed with the initial implementation of the system, subject to confirmation of the final costs and approval of an implementation plan.

MANAGEMENT BOARD SECRETARIAT - INVENTORY OF INFORMATION TECHNOLOGY ASSETS PROJECT - SECTION 3.12

4.00

BACKGROUND

In 1993 Management Board Secretariat paid a consulting firm \$4.225 million primarily to conduct a certified inventory count of the government's information technology assets. In 1995 we assessed whether good business practices were followed with respect to this project.

We found little evidence to suggest that the costs, risks and alternatives were explored in sufficient depth prior to the commitment of the funds. We made several recommendations relating to project justification, acquisition of consultants' services, project management and use of project results.

CURRENT STATUS OF RECOMMENDATIONS

The Management Board Secretariat reiterated that this particular 1993 project was atypical, both in the nature of the project and in the timeframes involved, and acknowledged that its normal good business practices were not followed in this instance. However, the Management Board Secretariat stated that for other projects it does follow appropriate practices with respect to project justification, acquisition of consultants, project management and use of results.

The audit committee of the Management Board Secretariat recently approved a recommendation to conduct an internal audit in 1997/98 to follow up specifically on our 1995 recommendations and to assess compliance with good purchasing practices.

MINISTRY OF MUNICIPAL AFFAIRS AND HOUSING - NON-PROFIT HOUSING - SECTION 3.13

BACKGROUND

The Ministry of Municipal Affairs and Housing is responsible for the delivery of non-profit housing programs. Subsidies paid to non-profit housing providers such as cooperatives and private and municipal non-profit housing corporations to operate completed projects amounted

to \$769 million in the 1996/97 fiscal year. In 1995 we assessed the adequacy of controls over the selection, development, construction, operation and cost of housing projects as well as the Ministry's progress in addressing the concerns raised by both our previous audit in 1992 and by the Standing Committee on Public Accounts in 1993 and 1994.

Our further recommendations in 1995 included improving the systems and procedures needed to ensure that:

- funded housing providers comply with important program policies and objectives and that they are effectively governed;
- problem projects are dealt with swiftly and effectively;
- vacancies in units designated for market rent tenants are reduced and strategies are developed to minimize future vacancies in projects not yet completed; and
- the Ministry can provide the necessary information to foster public accountability, to better explain the costs of non-profit housing programs and to facilitate analysis of policy and cost reduction strategies.

CURRENT STATUS OF RECOMMENDATIONS

While progress has been made on all of our further recommendations, more work is necessary to ensure that they are fully addressed before responsibility for the administration of social housing is transferred to municipalities. The status of the above recommendations is summarized below.

MONITORING SUBSIDIES AND COMPLIANCE WITH PROGRAM REQUIREMENTS

An area of ongoing concern is the need for more timely reviews of group budgets, audited financial statements and annual information returns, together with any resulting subsidy adjustments. Although there has been improvement since 1995, as of February 1997 only financial statement reviews and settlements for the years prior to 1995 had been completed. Group budgets for 1996 had been reviewed and approved but 1997 budget guidelines had not yet been issued to groups. Delays continue to occur because of the late notification of government constraint guidelines and the late filing of information by groups.

In 1996 the Ministry, through its regional offices, began a program of operational reviews of groups receiving subsidies. The scope of these reviews includes reviewing board governance responsibilities and checking compliance with important program requirements such as those for tenant eligibility, rent determination and property maintenance. About 20% of the 1,300 groups receiving subsidies as of March 31, 1997 had been reviewed and the review procedures were being refined based on the lessons learned from these reviews. The scope and frequency of future reviews will depend on the timing and implementation of devolution to the municipalities.

Also in 1996 the Ministry, jointly with the Canada Mortgage and Housing Corporation, began a program of internal audits of the large municipal non-profit housing providers which own and manage some 27% of all units under subsidy.

PROBLEM PROJECTS

Revised procedures have been developed and communicated to regional offices to help them assess, report and act on projects in difficulty. To March 31, 1997, some 50 such projects have been identified and follow-up actions were being taken.

CONTROLLING VACANCIES IN MARKET RENT UNITS

The method of calculating subsidies has been revised to transfer the risk and cost of vacancies to the non-profit housing groups. This should encourage pro-active efforts to minimize vacancies. Groups are also required to report occupancy data to the Ministry annually. However, the Ministry has not systematically captured, summarized and reported this information to help assess the effectiveness of the program in meeting housing demand and objectives for the mix of tenants in subsidized projects.

With the cancellation of new project development in 1995, the risk of vacancies in new projects is no longer of concern to the Ministry.

MANAGEMENT INFORMATION

Several steps have been taken to improve the information available to manage the program and report on its results.

- Starting in 1996 group budgets are prepared, approved and summarized to separate the rent subsidy (the difference between market rents and what tenants can afford to pay based on their income) from the operating subsidy (the difference between operating costs and rental income assuming all units are rented at market rates). This information allows the Ministry to better analyze subsidy costs and to compare costs to other housing assistance policy options. Further system enhancements were under way to improve the ability to analyze and forecast subsidies and their components in time for the 1998/99 estimates process.
- The Ministry has implemented a system to track the mortgages of non-profit housing groups to coordinate competitive refinancing arrangements as the mortgages mature, better manage financing risk and improve the Ministry's ability to forecast the impact of interest rate changes on future subsidies.
- Benchmarks have been established based on an analysis of group operating costs and these benchmarks have been used to help improve equity in funding decisions. For example, subsidy constraints have been applied more heavily to groups that have incurred higher than average manageable costs, excluding mortgage payments and property taxes which groups cannot influence.

The Ministry does not yet have the means to determine whether the Program's tenant access objectives are being met. The Ministry was still developing a system to track related results from operational reviews and was planning a system for monitoring coordinated access systems established by communities to ensure that tenant access objectives were being met.

MINISTRY OF MUNICIPAL AFFAIRS AND HOUSING - MUNICIPAL AFFAIRS - SECTION 3.14

BACKGROUND

A significant responsibility of the Ministry of Municipal Affairs and Housing is to administer the legislation that establishes and governs the approximately 800 municipalities in Ontario.

In 1995 we assessed the Ministry's efforts to: promote strong, fair, effective and accessible governance in municipalities; monitor the financial conditions of municipalities; and measure and report on its effectiveness in achieving legislated and stated goals and objectives. We recommended that the Ministry:

- work with municipalities and other ministries to more effectively define the respective roles and responsibilities of the province and municipalities, and provide more flexibility and efficiency in service delivery by focusing more on results and less on process;
- develop action plans to achieve the many financial, service and accountability benefits already identified by several studies of the impact of restructuring municipal services and organizations; and
- help strengthen government performance and accountability by encouraging more comprehensive performance reporting by municipalities of the quality and cost of services provided and improve the measurement and reporting of the Ministry's own effectiveness.

CURRENT STATUS OF RECOMMENDATIONS

The Ministry has made substantial progress in addressing our recommendations given the complex nature of the issues and the need for legislative changes to resolve many of them.

The impact of many of the actions taken and under way will not take effect until

January 1, 1998. The status of the most significant actions as of March 31, 1997 is as follows.

- The *Savings and Restructuring Act, 1996* was passed on January 30, 1996 to make it easier for municipalities to increase revenues and to restructure local services and organizations. Regulations to the Act clarify the Minister's approval powers and the level of local support needed for local restructuring proposals. There were seven fewer municipalities than in 1995 and there will be 29 fewer by January 1, 1998. Further reductions are anticipated given that some 350 municipalities were involved in restructuring projects.
- The *Better Local Government Act, 1996* was passed in December 1996 to remove legislative barriers that inhibited municipalities' ability to operate more efficiently. Changes include permitting municipalities to reduce the number of local politicians, simplifying local election procedures, improving borrowing and investment practices and limiting certain liability insurance risks and costs.
- In January 1997 the government announced the Who Does What proposals to significantly alter the ways many local government services and programs are funded and delivered by ministries and municipalities. The primary objectives of the proposals are to clarify respective roles and responsibilities, eliminate duplication and overlap and improve accountability. Discussions with the municipal sector to implement the proposals are ongoing.

- In March 1997 the Ministry released for consultation "A Proposed Legislative Framework" and draft legislation for a new municipal act to redefine the provincial-municipal relationship and to give municipalities more power and flexibility to operate efficiently and effectively. Municipal powers would be limited only to the extent necessary to protect broader provincial and public interests, particularly in the area of municipal finance.
- To strengthen local accountability the *Savings and Restructuring Act, 1996* also provides the statutory authority for the province to regulate performance reporting by municipalities to their electorates. In 1996 the Ministry, in conjunction with affected ministries and interested municipalities, began a municipal performance measurement project. Over 70 performance indicators that relate primarily to the efficiency of program and service delivery had been developed and were being tested for feasibility. Further indicators of service and program effectiveness are planned for development commencing in June 1997 so that comprehensive performance reporting by municipalities can begin in 1998.
- To improve consistency and comparability in municipal financial reporting, the Ministry has also worked with municipalities and the accounting profession to update municipal accounting principles to reflect the principles that have been promulgated by the Public Sector Accounting and Auditing Board of the Canadian Institute of Chartered Accountants. The Ministry intends to begin the phase-in of these accounting principles starting January 1, 1998. The Ministry has also taken steps to improve its procedures for monitoring the financial condition of municipalities and for taking corrective action when a municipality's financial condition warrants some intervention.

To better demonstrate accountability for its own performance, the Ministry plans to publish its 1995/96 annual report in April 1997 and, like other ministries, has started to assemble performance measurement information related to its business plans. Further development of the Ministry's own performance measures and more timely reporting of its results is required.

Recommendations that have yet to be addressed include the development of procedures for managing municipalities that are placed under supervision and the need to further revise municipal funding policies once the Who Does What initiative and related consultations with the municipalities have concluded.

MINISTRY OF NATURAL RESOURCES - AVIATION, FLOOD AND FIRE MANAGEMENT ACTIVITY - SECTION 3.15

BACKGROUND

The Ministry's aviation, flood and fire management activities include the provision of aviation services to all government ministries, forest fire management services, and flood forecasting and warning to minimize the effects of water-related hazards.

In 1995 we assessed whether reasonable standards and procedures had been established for aviation services and for the prevention, detection and suppression of forest fires. We also assessed whether operations were carried out with due regard for economy and efficiency and whether procedures to measure and report on program efficiency and effectiveness were

satisfactory. We did not review the flood control program in view of its relatively limited budget and activities.

CURRENT STATUS OF RECOMMENDATIONS

Our recommendations focused on fire suppression, fire prevention and enforcement and aircraft operations. Recommendations relating to the following areas have been substantially implemented:

- Monitoring and Analyzing the Use of Staff Time;
- Determination of the Most Cost-effective Number and Location of Fire Attack Bases;
- Implementation of a Time Accounting and Reporting System for Pilots; and
- Improving the Inventory Controls for Aircraft Parts.

However, with respect to our other recommendations, the status of actions taken is as follows.

FIRE SUPPRESSION

Capacity Planning

Recommendation

The Ministry should define appropriate measures of fire-management capacity and use them to assess its own current capacity, and determine the most cost-effective combination of resources and organizational structures for fire management and take the necessary steps to achieve it.

Current Status

The Ministry has developed a "Level of Protection Model" which is being used to cost the initial fire attack by including various resource inputs such as fire bases, firefighters, helicopters and water-bombing aircraft. These costs are to be used to analyze capacity and to help work toward a more cost-effective program. In 1997/98 the Ministry will use this model in its land-use planning exercise to obtain a clear indication of the appropriate level of fire management.

Agreements with Municipalities and Federal Government

Recommendation

The Ministry should track the costs of fire suppression services provided to municipalities and the federal government. Rates for these services should then be adjusted in order to recover these costs.

Current Status

The Ministry expects to complete a redefinition of municipal agreements regarding funding by April 1, 1998. It is expected to result in a net reduction in cost to the province of between \$200,000 and \$500,000. The cost of services to the federal government will continue to be captured as stipulated in the existing agreement.

FIRE PREVENTION AND ENFORCEMENT

Performance Measurement of Fire Protection

Recommendation

The Ministry should monitor the effectiveness of its fire prevention programs and ensure that fire prevention efforts are effectively targeted and the type of activities undertaken are appropriate for the target group.

Current Status

The prevention program has taken a major directional change, emphasizing delivery through participants in the forest industry, the Ontario Forestry Association and the media. A new fire education strategy was completed in 1995 and its implementation is ongoing.

Allocation of Resources to Prevention

Recommendation

The Ministry should establish targets for prevention, for example to reduce the number of human-caused fires by a specific percentage, and better coordinate the suppression and prevention planning processes to relate the cost of fire prevention efforts to avoidance of fire suppression costs.

Current Status

The Ministry will incorporate prevention investments into the next generation of the "Level of Protection Model." This model is being re-examined and verified as part of the Fire Management Business Plan. A completion date has yet to be determined.

Fire Investigation Practices, Fines and Cost Recoveries

Recommendation

The Ministry should take action to make fire investigations more timely and effective and should also make more vigorous efforts to recover firefighting costs in cases where the perpetrators responsible for forest fires are known, as permitted by law.

Current Status

The Ministry placed a high priority on fire investigations in 1996 and instituted a more active enforcement and prosecution process. The Ministry also strengthened its fire investigation capabilities in the 1996 fire season by establishing the necessity of fire investigation with regional staff and taking steps to improve the fire investigation process. However, planned audits of fire investigations were not possible in 1996 due to the large number of fires and a commitment to the Fire Business Review.

Permit Issuing and Inspection Practices

Recommendation

The Ministry should establish results-oriented objectives for the permit and inspection programs, and develop a risk-based inspection program for work and fire permits to ensure that licensees comply with the conditions of permit issuance.

Current Status

New fire regulations have resulted in a significant reduction in the number of fire permits issued and focus on preventing high-risk fires during significant burning periods. With the reduction in the number of permits issued, monitoring efforts will be streamlined and beginning in 1997 inspections will be risk-based.

AIRCRAFT OPERATIONS

Aircraft Utilization

Recommendation

To better utilize its aviation resources, the Ministry should review the composition of its fleet and continuously monitor the utilization of its aircraft .

Current Status

The Ministry has reviewed the utilization of its air fleet, and has assigned staff to manage aircraft and the implementation of a system to deploy or release helicopters in a more timely fashion. The Ministry is also in the process of evaluating aircraft management information systems and expects to have selected and implemented a system by April 1, 1998.

Aircraft Maintenance Operations

Recommendation

The Ministry should implement a time accounting and cost allocation system for maintenance staff, and determine the number of aircraft maintenance engineers required to service the Ministry's fleet.

Current Status

The implementation of an aircraft management information system by April 1998 is expected to facilitate time accounting and cost allocation. The Ministry has reduced the number of aircraft maintenance engineers and increased reliance on seasonal positions for short-term work.

MINISTRY OF NORTHERN DEVELOPMENT AND MINES - NORTHERN ONTARIO HERITAGE FUND CORPORATION - SECTION 3.16

BACKGROUND

The mandate of the Northern Ontario Heritage Fund Corporation (NOHFC) is to encourage the growth and diversification of the economy of Northern Ontario by providing financial assistance through a variety of programs.

Our 1995 audit assessed NOHFC's procedures for measuring and reporting on the effectiveness of its programs and whether key financial and management systems, and procedures and practices were in place to ensure that the fund was administered in accordance with funding guidelines and policies.

Our recommendations included proposing that NOHFC should:

- improve the measurement of the actual results of funded projects over time and report periodically on the effectiveness of its funding programs to prioritize and determine methods of funding future projects;
- improve the ongoing monitoring of funded projects to ensure compliance with funding requirements; and
- more thoroughly assess project proposals, especially for smaller dollar-value projects.

CURRENT STATUS OF RECOMMENDATIONS

The NOHFC has commenced action on all of the recommendations that we made in our 1995 report:

- A project-tracking system is in the development stage and is intended to enhance the monitoring of projects and the evaluation of their effectiveness.
- Ministry of Northern Development and Mines (MNDM) area teams have been established and with assistance from other ministry staff are to monitor NOHFC-funded projects and perform site inspections as required.
- With respect to project assessment, MNDM has developed a model for integrating regional economic activities in Northern Ontario. MNDM area teams have been established and partnership agreements are being signed between MNDM and other ministries. One of the functions of the area teams is to provide project analysis/assessment for NOHFC projects, with assistance from specialists in the other ministries.

MINISTRY OF THE SOLICITOR GENERAL AND CORRECTIONAL SERVICES - COMMUNITY SERVICES ACTIVITY - SECTION 3.17

BACKGROUND

The Community Services Activity is the responsibility of the Ministry's Correctional Services Division. The Activity provides supervision for offenders who are serving their sentences in the community under a probation order or parole certificate.

In 1995 we assessed whether the Ministry had adequate procedures in place to: ensure that offenders serving sentences in the community complied with the conditions of probation or parole; manage resources cost-effectively; and measure and report on the effectiveness of its community programs.

We found weaknesses in the supervision of offenders, the monitoring of staff workloads and the measuring and reporting of program effectiveness. We made a number of recommendations for improvement.

CURRENT STATUS OF RECOMMENDATIONS

The Ministry has taken action on all our recommendations made in 1995. Recommendations relating to the following areas have been substantially implemented:

- Compliance with Probation Conditions - Follow-ups and Documentation;
 - Reporting Conditions;
 - Restitution Conditions;
- Monitoring Performance; and
- Program Effectiveness

Action on our other two recommendations is ongoing as explained further below.

COMPLIANCE WITH PROBATION ORDER TREATMENT CONDITIONS

Recommendation

The Ministry should take appropriate action when probationers fail to comply with treatment conditions and should keep up-to-date information on the availability of treatment programs so that appropriate service levels for community programs can be maintained.

Current Status

Enforcement of treatment conditions remained problematic, especially with mentally disordered offenders. While the Ministry is exploring more effective actions, officers are under strict instructions to enforce all treatment conditions or seek a variation through the court if such conditions are considered unenforceable.

On an ongoing basis, area offices will be directed to establish local waiting lists for both medical/psychiatric and rehabilitation treatment programs in order to inform Crown attorneys and the courts of the availability of appropriate programming.

OFFICER WORKLOADS

Recommendation

The Ministry should establish workload standards and use them to analyze staffing so that staff can be deployed in a more cost-effective manner.

Current Status

The Ministry has developed and pilot tested a workload index which was designed to measure caseloads and workloads and assist in the analysis of staffing levels. Due to a recent reorganization of the Correctional Services Division, the introduction of the workload index across the Division has been scheduled for later in 1997.

MINISTRY OF THE SOLICITOR GENERAL AND CORRECTIONAL SERVICES - ONTARIO BOARD OF PAROLE - SECTION 3.18

BACKGROUND

The Ontario Board of Parole is responsible for deciding whether parole should be granted or denied to adult offenders who are serving sentences of less than two years in a correctional institution. Such offenders are eligible to apply for parole after serving one third of their sentences. Offenders who are granted parole serve the remainder of their sentences in the community under the supervision of parole officers.

In 1995 we assessed whether the Board had adequate procedures for making appropriate parole decisions and for measuring and reporting on its effectiveness in protecting public safety and facilitating the reintegration of offenders into the community. We recommended that the Board improve the quality of its parole decision-making process by obtaining sufficient information, using more objective risk-assessment tools, providing better training to its members and taking corrective action where necessary. We also recommended that the Board develop better measures to assess and report on its effectiveness.

CURRENT STATUS OF RECOMMENDATIONS

The Board has taken action on all of the recommendations made in our 1995 report. Recommendations relating to the following areas have been substantially implemented:

- Sufficient Information;
- Risk Assessment;
- Documenting Parole Decisions; and
- Performance Measures.

Action on our other two recommendations is ongoing as explained further below.

MONITORING AND TRAINING OF BOARD MEMBERS

Recommendation

To improve the quality of members' decision-making, the Ontario Board of Parole should systematically monitor the parole decision-making process and take corrective action, including additional training, where necessary.

Current Status

Random reviews of parole decision case files have now been integrated as ongoing activities of the Board. In addition, all offenders committing a Level 1 offence while on parole continue to be reviewed jointly with the Ministry of the Solicitor General and Correctional Services. These reviews are used for monitoring compliance with Board policies and procedures, the adequacy of relevant information and the quality of parole decisions.

In conjunction with the Ministry, the Board has developed a systemic review process as a proactive measure to continually improve and refine parole decision making. The process for conducting systemic reviews is being field tested by the Ministry's Correctional Services Division and the Board.

The Board has identified a number of areas where enhanced training would improve the quality of its members' decision making. The Board is currently providing training to members in these specific areas.

SHORT-TERM OFFENDERS

Recommendation

The Board should work with the Ministry to maximize the use of cost-effective solutions to reintegrate low-risk offenders into the community.

Current Status

The Board and the Ministry have assigned a working group to review the issue of an integrated conditional release authority with the objective of recommending a model that will reduce program overlaps, improve efficiency in service delivery, improve program utilization, and more effectively identify and return low-risk offenders to the community. A report from the working group is expected to be finalized later in 1997.

In 1996 the Ministry implemented electronic monitoring as an option under the temporary absence program. The effectiveness of this option is yet to be assessed.

MINISTRY OF TRANSPORTATION - QUALITY AND STANDARDS ACTIVITY - SECTION 3.19

BACKGROUND

The Ministry of Transportation develops standards and regulations for the design, construction and maintenance of roads and related structures. The Ministry also develops standards with respect to other areas such as road safety, environmental issues and the acquisition of materials and services.

Our 1995 audit assessed procedures established by the Ministry for the development of appropriate standards for design, construction and maintenance of a safe, efficient and economical roadway network. We also assessed the adequacy of the Ministry's procedures to ensure that current standards were being implemented and whether procedures to evaluate and report on program efficiency and effectiveness were adequate.

CURRENT STATUS OF RECOMMENDATIONS

Our recommendations focused on road design, construction and maintenance standards, the implementation of ministry standards and municipal roads accountability. The status of actions taken with respect to our specific recommendations is as follows.

DESIGN, CONSTRUCTION AND MAINTENANCE STANDARDS

Life-cycle Costing

Recommendation

The Ministry should develop improved life-cycle costing procedures and incorporate life-cycle costing analyses into its design and construction decisions.

Current Status

The Ministry implemented life-cycle costing procedures in January 1997. A study to refine the life-cycle costing methodology is currently under way and is funded jointly by the Ministry and the asphalt and concrete industries. The study is to be completed by the fall of 1997.

New Materials and Technologies

Recommendation

The Ministry should ensure that cost-effective materials and technologies identified through its research efforts are incorporated into the Ministry's standards on a timely basis.

Current Status

A number of applications for advanced composite materials are being field tested by the Ministry. For example, the construction of a bridge has been completed using steel-free deck slabs and barrier walls with carbon fibre reinforcement. Additionally, the Ministry has completed the final draft of a bridge code section on fibre-reinforced structures which will be presented to the Canadian Highway Bridge Design Code technical committee for publication in October 1997.

In 1996 a full-scale trial of stone mastic asphalt (SMA) pavement overlay was completed on a 10-kilometre stretch of the eastbound Highway 401. In 1997 the Ministry will resurface the westbound lanes using conventional technologies. The performance of the two processes will be monitored and compared over the next five years to validate performance predictions for SMA under Ontario conditions.

IMPLEMENTATION OF MINISTRY STANDARDS

Compliance with Construction Standards

Recommendation

The Ministry should institute more comprehensive documentation, including checklists, to ensure that all applicable construction standards have been complied with.

Current Status

The Ministry experimented with quality assurance mechanisms in 1996 and is transferring full responsibility for quality control to contractors beginning in the 1997 construction season. Contractors will be required to adequately document their testing and the Ministry will perform audits to ensure compliance.

Testing Compliance with Construction Specifications

Recommendation

In order to assess compliance with construction specifications, the Ministry should institute the necessary testing procedures and maintain adequate documentation to demonstrate that all construction complies with design specifications.

Current Status

More restrictive requirements were introduced for trials in 1995 and 1996. Various improvements in testing techniques and accuracy will be in place for the 1997 construction season. New test limits are also to be included in all 1997 construction contracts.

End-result Specifications

Recommendation

The Ministry should expand the use of end-result specifications, including performance-based specifications, and thereby make contractors more accountable for the quality of their work.

Current Status

The Ministry is moving toward implementation of performance-based specifications for all aspects of material utilization and acquisition. Conversion to end-result specifications will be completed for 80% of the dollar value of materials accounted for in the 1997 construction projects. Work is under way to complete the conversion to end-result specifications for lesser-value materials in the 1998 and 1999 construction seasons.

Warranties and Penalties

Recommendation

With due regard to the difficulties of measuring performance, the Ministry should strengthen penalty provisions and implement warranty requirements which provide an effective deterrent against substandard work.

Current Status

All construction contracts now contain a one-year general warranty that requires the contractor to repair any failures. All 1997 surface-treating contracts are to have a two-year performance warranty. However, for longer-term warranties the Ministry is encountering strong reservations from the financial sector which provides performance bonds. Consequently, only seven of the approximately 100 contracts for the 1997 construction year have warranties in excess of two years.

The Warranty Task Force established by the Ministry has determined that warranties are suitable for only a limited number of products where measurable performance criteria can be developed for assessment during the warranty period. The Ministry is continuing to explore the use of warranties but is finding that other types of specifications such as end-result specifications are more appropriate for highway work.

Management Information Systems

Recommendation

The Ministry should develop and integrate the construction and maintenance databases required to more effectively manage its road network.

Current Status

The Integrated Highway Inventory System is the key system to link various databases. Protocols for linking have been agreed to and work is progressing on system implementation. However, implementation is progressing more slowly than originally planned due to funding restraints. Partial implementation is expected by March 1998.

MUNICIPAL ROADS ACCOUNTABILITY

Recommendation

The Ministry should ensure that municipal roads are built to appropriate service-level standards, including due regard for cost effectiveness.

Current Status

In January 1996 the responsibility for funding municipal roads was transferred from the Ministry of Transportation to the Ministry of Municipal Affairs and Housing. The new funding arrangements remove many of the constraints which were placed on municipalities regarding the management of roads under their jurisdiction.

The Ontario Good Roads Association has established a committee, with Ministry and municipal representatives, to develop generally accepted industry standards for road construction. The Ministry is also working closely with the Association and municipal representatives to establish a set of municipal maintenance and service-level standards.

CHAPTER FIVE

Public Accounts of the Province

5.00 INTRODUCTION

The *Public Accounts* for each fiscal year ending March 31 are prepared under the direction of the Minister of Finance as required by the *Ministry of Treasury and Economics Act*. The Act requires the *Public Accounts* to be delivered to the Lieutenant-Governor in Council for presentation to the Legislative Assembly not later than the tenth day of the first session held in the following calendar year. However, the *Standing Orders of the Legislative Assembly* call for the tabling of all statutory reports within six months of the close of the reporting period unless reasons for the delay are given to the Assembly. Accordingly, the *Public Accounts* have normally been available for tabling by September 30 of each year.

The Financial Statements of the province are the responsibility of the Government of Ontario. This responsibility encompasses ensuring the objectivity and integrity of the information presented in the Statements, including the many amounts which must of necessity be based on estimates and judgment. The government is also responsible for maintaining systems of financial management and internal control to provide assurance that transactions are authorized, assets are safeguarded and proper records are maintained.

The Provincial Auditor audits and expresses an opinion on the Financial Statements of the province. This opinion is intended to provide reasonable assurance that the Financial Statements are free of material misstatement. The Financial Statements, along with the Provincial Auditor's opinion on them, are provided in a separate volume of the *Public Accounts*. In addition to the Financial Statements, the *Public Accounts* include the following three supplementary volumes:

Volume 1 of the *Public Accounts* provides details of the significant transactions of the province's Consolidated Revenue Fund. It includes schedules of the Fund's revenues, expenditures, financing transactions, financial assets, liabilities and contingent liabilities. It also contains the individual statements for each government ministry.

Volume 2 contains reproductions of the audited financial statements of the most significant — in terms of size — agencies of the Crown and Crown controlled corporations. For purposes of consolidating the activities of these entities into the province's Financial Statements, they are classified as government service organizations, government enterprises, or trusts under administration. *Volume 2* also contains certain other audited and unaudited financial statements.

Volume 3 details each ministry's expenditures, such as salaries and wages, employee benefits, travelling expenses and other payments, under two main categories: Voted Appropriations and Statutory Appropriations. *Volume 3* also contains the salaries of senior Ontario Public Service employees as required by the *Public Sector Salary Disclosure Act, 1996*.

The Provincial Auditor reviews the information in these three supplementary volumes for consistency with information presented in the Financial Statements.

THE PROVINCE'S 1996/97 FINANCIAL STATEMENTS

The *Audit Act* requires that in my Annual Report I report on the results of my examination of the province's Financial Statements as reported in the *Public Accounts*. I am pleased to report that my Auditor's Report to the Legislative Assembly on the Financial Statements for the fiscal year ended March 31, 1997 is clear of any qualifications or reservations and reads as follows:

To the Legislative Assembly of the Province of Ontario

I have audited the statement of financial position of the Province of Ontario as at March 31, 1997 and the statements of operations and accumulated deficit and of changes in financial position for the year then ended. These financial statements are the responsibility of the Government of Ontario. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Government, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Province as at March 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with accounting principles recommended for governments by The Canadian Institute of Chartered Accountants. As required by Section 12 of the Audit Act, I also report that, in my opinion, these accounting principles have been applied, in all material respects, on a basis consistent with that of the preceding year.

Toronto, Ontario
August 15, 1997


Erik Peters, FCA
Provincial Auditor

ACCOUNTING PRINCIPLES RECOMMENDED FOR GOVERNMENTS

The Financial Statements reflect the implementation of accrual and consolidation accounting as recommended by the Public Sector Accounting and Auditing Board (PSAAB) of the Canadian Institute of Chartered Accountants (CICA). PSAAB recommendations are contained in the CICA's *Public Sector Accounting and Auditing Handbook*. They represent the consensus of senior government financial officials, legislative auditors and other experts in public sector accounting across Canada on minimum requirements for financial statement accounting and reporting practices for governments.

The Financial Statements also reflect, where applicable, the *CICA Handbook* for private and public corporations in Canada, for example, the recommendations on financial instruments disclosure and presentation.

Crown agencies owned or controlled by the government are consolidated in the Financial Statements as either service organizations or as government business enterprises. In accordance with revised PSAAB recommendations on the reporting entity, the province reclassified the Ontario Housing Corporation and the Toronto Area Transit Operating Authority (GO Transit) from government enterprises to government service organizations effective April 1, 1995. The impact on the 1996/97 and 1995/96 deficits was an increase of \$98 million and \$74 million, respectively.

Because of their unique nature, two of the largest agencies of the province, the Workers' Compensation Board and Ontario Hydro, warrant special mention.

Under the *Workers' Compensation Act*, funding of the Board's liabilities, including its large unfunded workers' benefits liability, is a future financial obligation of private-sector employers and not of the province. The Board has therefore been classified as a trust fund and details are provided in a note to the Financial Statements.

By virtue of the *Power Corporation Act*, Ontario Hydro's earnings and net assets are neither intended nor available for distribution to the province. Accordingly, Hydro is not consolidated into the Financial Statements, but details of certain aspects of Hydro's operations are disclosed in the notes. The province's guarantee of Hydro's debt is discussed below.

OBSERVATIONS ARISING FROM 1997 AUDIT

PROVINCIAL GUARANTEE OF ONTARIO HYDRO DEBT

As at March 31, 1997 the province had guaranteed various debt issues of Ontario Hydro totalling \$29 billion. In its Financial Statements for the year ended December 31, 1996, Hydro reported that its regulated and monopoly status would likely change during the next several years to allow for more competition, and that its existing debt load was too great to compete in a more open and competitive marketplace. The Advisory Committee on Competition in Ontario's Electricity System has estimated that a \$15 billion reduction in Hydro's existing debt would be required to restructure Hydro along more commercial lines and to offset unrecoverable assets.

Hydro had estimated \$16 billion in potentially stranded debt (debt that may not be supportable in a fully competitive commercial environment) for “strategic discussion purposes” and expects that a suitable mechanism can be put in place to allow any stranded debt to be discharged over a reasonable timeframe without the need for rate increases. Hydro estimated that about \$2 billion of the \$16 billion of stranded debt related to assets that might not be recoverable and to uneconomic purchase agreements. As well, Hydro has stated that given the significant amount of uncertainty regarding the general shape of the future electricity industry in Ontario and specific uncertainties regarding future electricity prices, the existence and amount of any potential future loss was not reasonably determinable. Hydro has also stated that this does not pose a risk for holders of its bonds and notes as they are either held (\$3 billion) or guaranteed (\$29 billion) by the province.

As a result of the potential stranded debt and the recent developments regarding nuclear power generating plants, for which much of Hydro’s debt was issued, we share the government’s concern, as expressed in the province’s 1996/97 Financial Statements, that the province’s risk to make payments under these guarantees has increased.

PUBLIC ACCOUNTS TABLED EARLIER

As noted in the introduction to this chapter, the *Standing Orders of the Legislative Assembly* call for the tabling of all statutory reports within six months of the close of the reporting period unless reasons for the delay are given to the Assembly. Accordingly, the *Public Accounts*, which include the audited Financial Statements of the province, have normally been tabled by September 30 of each year.

The Ontario Financial Review Commission was concerned that up to 18 months might elapse between the tabling of the *Budget*, which outlines the government’s plans for the fiscal year, and the release of the actual audited results for the year. The Commission believed that the excessive length of this period impaired accountability. It recommended that the government’s annual report and the *Public Accounts* should be presented no later than 120 days after the year-end, but preferably within 90 days. The Commission acknowledged that the incompatible accounting systems within the Ontario government made it very difficult to prepare the *Public Accounts* much earlier.

This year the *Public Accounts* and the province’s annual report were tabled on September 9, 1997, almost three weeks earlier than last year’s tabling date. This was a significant step in the right direction and required a determined effort by ministry and Crown agency staff and the staff of my Office.

In my 1996 *Annual Report*, I had recommended that significant accounting and disclosure issues be resolved earlier in the fiscal year. This becomes increasingly important as the government endeavours to move up the tabling date of the *Public Accounts*. I am pleased that Ministry of Finance officials have agreed to integrate consultation with my Office on all significant accounting decisions into their pre-*Budget* consultation process. This will help ensure that a consistent accounting methodology is used in both the *Budget* and the audited Financial Statements of the province.

NEW PSAAB STANDARDS

PSAAB attempts to foster improved financial and performance information by developing and promulgating recommendations for governments to deal with emerging accounting and auditing issues. There are several current projects at various stages of completion. One recently completed project warrants further discussion because of its significant implications for the future preparation and presentation of the province's Financial Statements.

TANGIBLE CAPITAL ASSETS

The private sector amortizes capital assets over their multi-year useful lives, whereas current practice in the federal and most provincial governments, including Ontario, is to expense the full cost of a capital asset in the year of acquisition in accordance with PSAAB recommendations. However, in June 1997 PSAAB approved a new set of recommendations dealing with government tangible capital assets. The Ontario Government is actively considering the implementation of these recommendations in the future.

These new recommendations require governments to define capital assets and set out rules for their recognition, measurement, amortization and presentation. We look forward to working in an advisory capacity on this matter to assist in ensuring that existence, ownership, auditability and valuation issues regarding these assets are resolved, that value for money is obtained, and that cost-effective business practices, systems and procedures are in place to manage, control and account for these assets.

Additionally, in implementing these recommendations, we urge the government to specifically address the following issues.

- The capitalization of physical assets should be implemented at the ministry and program level as well as at the summary Financial Statement level to ensure that individual ministry programs are properly costed.
- The government's appropriation process should be changed to include full accrual accounting for tangible capital assets.
- Clear rules for depreciation and valuing physical assets should be developed and implemented. These rules must be based on economic and financial realities and be applied in a consistent manner from one fiscal year to the next.
- Capitalizing physical assets could create the impression of an improved financial position or a reduction in expenditures when no improvement in the government's net debt position has, in fact, occurred. To address this situation, the government should ensure that the province's deficit is measured as the change in net debt as recommended by PSAAB.
- Infrastructure assets will require special consideration. For example, the government's investments in the province's highway system are difficult to appropriately allocate to accounting periods, and differentiating between investments in new capacity and maintaining existing capacity is often difficult. New accounting models may need to be developed to adequately address these issues.

Despite the challenges and the potential costs to the government of implementing the new PSAAB recommendations, it is my view that their application will enhance the value of the Financial Statements for both decision makers and stakeholders.

OTHER RECOMMENDATIONS FOR IMPROVEMENT

Although the audit of the province's Financial Statements was not designed to identify all weaknesses in internal controls, nor to provide assurances on financial systems and procedures as such, I noted a number of areas during the audit where I believed improvements could have been made. While none of these matters affects the fairness of the Financial Statements of the province, they will be covered, along with accompanying recommendations for improvement, in a management letter to the Ministry of Finance.

AUTHORIZATION, PROCESSING AND RECORDING OF EXPENDITURES

During the past year, in nine ministries and the central agencies, we reviewed the adequacy of financial controls, systems and procedures for ensuring that expenditures were properly authorized, processed and recorded. Ministries require adequate financial controls, systems and procedures to provide reasonable assurance that financial records are complete and accurate and that programs comply with applicable legislation and policy directives.

We found that, on an overall basis, ministries had satisfactory controls, systems and procedures to ensure that expenditures were properly authorized, processed and recorded. However, in many of our reviews, we found that internal control procedures for two particular areas, accountable advances and payrolls, required strengthening. Although we noted weaknesses in other areas and made related recommendations, which were agreed to by the ministries, their nature and frequency was such that they do not warrant repetition here.

ACCOUNTABLE ADVANCES

Accountable advances (imprest bank accounts) are authorized by the Minister of Finance under section 14 of the *Financial Administration Act*. The purpose of these bank accounts is to provide ministries with the flexibility to meet their local requirements and make emergency payments that cannot be made efficiently through the centralized government payment system.

The total authorized amount of these accounts exceeds \$50 million, and, for the year ended March 31, 1997, the value of transactions flowing through them was approximately \$600 million.

The major control weaknesses we noted involved the timely reconciliation of these accounts. Although ministries are required to reconcile these accounts on a monthly basis to ensure that all transactions are legitimate and promptly and accurately accounted for, some ministries had not prepared reconciliations for several months. Other weaknesses pertained to ongoing unreconciled differences and the monitoring and recovery of individual employee advances. The lack of timely reconciliations and related matters expose ministries to the risk of inappropriate payments being made and remaining undetected for prolonged periods.

The ministries where we identified control weaknesses agreed to take action, and in some cases were in the process of taking action, to update the reconciliations of their accountable advances.

PAYROLLS

The central CORPAY system processes the bi-weekly government payroll, which includes the calculation of the associated deductions. Ministries are responsible for providing CORPAY with the information needed to calculate the employee payrolls. Once the payroll has been processed, CORPAY provides the necessary data files and reports to the various ministries for updating their internal accounting records, and to the Ministry of Finance for updating Central Accounts, the government's centralized financial accounting system.

Controls over all aspects of payroll processing are necessary to ensure that employees are paid the amounts to which they are entitled and that employee withholdings are accurately calculated and remitted.

Although a variety of weaknesses were noted, the most common were as follows.

- Gross payroll reconciliations were incomplete. Bi-weekly CORPAY payroll reports were not being compared to the previous bi-weekly payroll for each program area and in total to ensure that all changes were accurate and had been properly authorized.
- Clearance certificates for departing employees were not always completed to ensure that any ministry assets (for example, personal computers, access cards, corporate travel and purchasing cards, outstanding advances) were recovered before releasing the final payments.

Again, the ministries to which these weaknesses pertained agreed to take appropriate corrective action.

In CORPAY, there are about 50 payroll source deduction accounts (for items such as income tax, pensions, group life insurance and charities). We noted that a number of these accounts had unreconciled balances, some of which were significant and that reconciliations were substantially behind in being prepared. At the time of our review, reconciliations of all of these accounts back to the inception of CORPAY in 1992 were in progress.

OTHER - INTERNAL AUDIT

Internal auditors assist management in fulfilling its responsibilities by periodically examining both financial and management information systems, procedures and controls to provide assurance that they are operating effectively. Internal financial audits are designed to provide assurance that systems and procedures are adequate to safeguard assets and to produce accurate and reliable financial information.

In three of the above-mentioned reviews, we noted that, for various reasons (including ministry management priorities and reduced staffing levels), internal audit coverage of ministry financial systems and controls as well as of financial systems and controls in individual program areas has been lacking in recent years. Such lack of audit coverage increases exposure to losses and increases the risk that significant internal control weaknesses are not being promptly identified and corrected.

In many cases, internal audit branches are in the process of redefining their ministry audit universes based on the use of risk assessment methodologies. This work may require further review and revision once government-wide restructuring of internal audit services, now in progress, is finalized. In the meantime, it is important that internal audit branches provide

sufficient coverage and devote the necessary quality and quantity of resources to audits of financial management controls and adhere to the professional standards established for internal auditors.

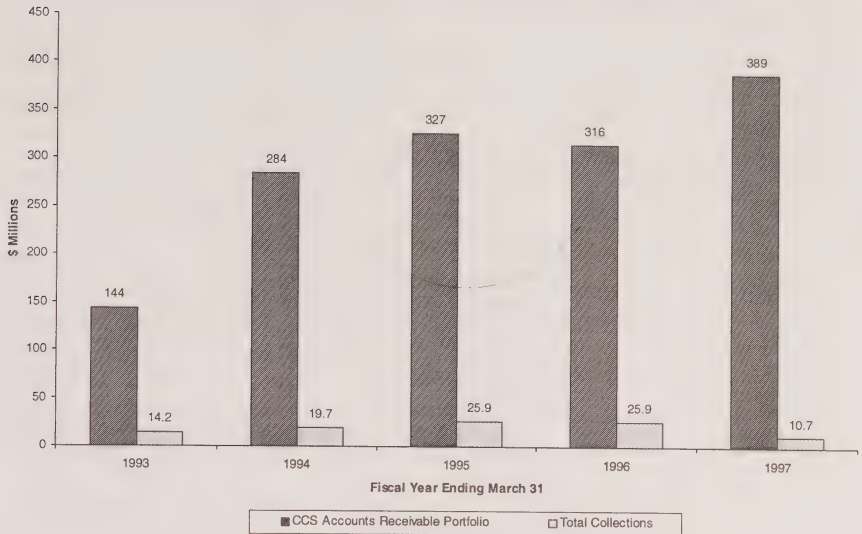
ACCOUNTS RECEIVABLE COLLECTION ACTIVITIES

In several value for money audits and the financial control reviews we noted a significant deterioration in accounts receivable collection activities. The instances noted related to receivables arising from the Ontario Student Loans program in the Ministry of Education and Training, provincial fines administered by the Ministry of the Attorney General and family benefit overpayments owing to the Ministry of Community and Social Services. These organizations as well as the Ontario Development Corporations informed us that one key reason receivables collections had deteriorated was because the Central Collection Service (CCS) of the Management Board Secretariat (MBS) was unable to accept many new accounts after June 1996.

Ministries and Schedule 1 agencies are authorized to refer the collection of non-tax accounts receivable only to the CCS, the government's internal collection agency. CCS has its own collection staff and also outsources collection activities to private collection agencies (PCAs). Several years ago we conducted a special audit for the Standing Committee on Public Accounts wherein we assessed the quality of receivables information and the timeliness with which it was transferred to CCS by ministries and agencies. We concluded that while the quality of information received by CCS was, for the most part, adequate to enable it to pursue collection activities, the accounts were generally not being transferred in a timely manner.

CCS advised us that as of March 31, 1997 it was responsible for a receivables portfolio of \$389 million which included about \$90 million of accounts previously written off that had recently been transferred to the PCAs as part of a pilot project. CCS informed us that the number and dollar value of new accounts transferred to CCS had dropped from 11,246 accounts totalling \$35.1 million in the 1995/96 fiscal year to only 855 accounts totalling \$3.6 million in the 1996/97 fiscal year. As the following chart illustrates, the amount of receivables collected by CCS and the PCAs also decreased significantly in the 1996/97 fiscal year compared to previous fiscal years.

CCS Accounts Receivable Portfolio and Total Collections



Source: Central Collection Service

In May 1996 the government announced that the collection of non-tax accounts receivable was a good candidate for outsourcing. At the time of the announcement CCS had a staff of 49; however, 20 staff including three collection managers left between May and December 1996 and were not replaced. We were informed that due to the reduction in staff and because the outsourcing was considered imminent, CCS decided not to accept most new accounts as the remaining staff were all needed to reconcile the older accounts and process collections.

Action to outsource CCS collection activities began in May 1996; however, the Request for Proposal (RFP) to the PCA community had still not been issued by the summer of 1997. In discussing the length of time needed to prepare and issue the RFP, we were informed by MBS and CCS that a number of human resource and staffing issues arose that had to be addressed. The following table provides a chronology of events.

Date	Events
May 1996	The government announced that the collection of non-tax accounts receivable was a good candidate for outsourcing.
June 1996	The balances in approximately 800,000 accounts currently handled by private collection agencies (PCAs) needed to be verified before being included in the primary outsourcing RFP to the PCA community.
July 1996	An unrelated RFP was issued for a number of Ministry of the Attorney General (MAG) accounts and other previously written-off tax and non-tax accounts.
August 1996	It was determined that the CCS computer system requirements needed to be refined to enable electronic linkage with the computer systems of the PCAs before the primary outsourcing RFP could be finalized.
September 1996	The ministries were informed how to meet their obligations related to outsourcing under the collective agreement. This enabled CCS to commence preparation of a business case to the Management Board of Cabinet (MBC) on outsourcing all collection activities. Existing contracts with PCAs expired and were not renewed pending the final outcome of the primary outsourcing RFP. Accounts with PCAs were transferred back to CCS.
November 1996	The business case to outsource CCS collection activities was submitted to and approved by MBC. The RFP for MAG and previously written-off accounts was awarded to four PCAs.
March 1997	The verification of the 800,000 PCA accounts was completed. This enabled CCS to proceed with finalizing the primary outsourcing RFP.
June 1997	A new manager for the Collection Management Unit was hired to oversee the monitoring of the PCAs. A consultant's report identified additional computer system requirements needed to enable CCS to effectively manage the outsourcing of the collection activity. As a result of the decision by the Grievance Settlement Board requiring the employer to make reasonable efforts at redeploying employees made redundant by outsourcing initiatives, the RFP has been put on hold.

The decision to outsource the CCS collection activities and the subsequent actions needed to implement the decision have taken significant time. During this time there was a reduced level of collection activity. Collection experience has shown that delays in collection efforts impair the ability to collect accounts receivable and increase the risk of not collecting at all. The immediate effect has been that receivables collected for the 1996/97 fiscal year are \$15 million lower than the amounts collected in each of the two preceding fiscal years.

We are concerned that millions of dollars of collections may be foregone as the collectability of both those accounts presently with CCS, as well as those awaiting transfer to CCS, will continue to deteriorate the longer it takes to initiate effective and timely collection activities.

ONTARIO FINANCIAL REVIEW COMMISSION: UPDATE ON FINANCIAL REPORTING AND ACCOUNTING RECOMMENDATIONS

5.00

In November 1995, the Ontario Financial Review Commission submitted its report entitled "Beyond the Numbers: a New Financial Management and Accountability Framework for Ontario" to the Minister of Finance. The report contained a number of recommendations directed at improving the cycle of planning, monitoring, reporting and evaluating to ensure that programs meet real needs and meet them effectively. In its May 1996 *Ontario Budget* the government outlined its response to each of the Commission's recommendations.

The Commission made recommendations in three broad areas. One related to financial reporting and accounting issues, where 15 specific recommendations were made. In my 1996 *Annual Report*, I reported that eight of the 15 recommendations had been implemented and the other seven were in the process of being implemented. The following chart outlines the current status of these seven recommendations based on information provided by the Ministry of Finance.

Recommendation	Current Status*
Adopt the PSAAB basis of accounting for the <i>Budget</i> , related spending authority and fiscal updates.	PSAAB standards are now used in <i>Budget</i> and fiscal updates. The government is working toward adopting PSAAB standards for spending authority as part of its implementation of one financial system.
Adopt one financial system for all ministries.	The government has initiated a project to implement one financial system, targeted for the 2000/01 fiscal year.
Present the government's annual report and the <i>Public Accounts</i> 90-120 days after the year-end.	The <i>Public Accounts</i> for 1996/97 were tabled in the Legislative Assembly on September 9, 1997. The Ministry of Finance will continue to review means to move up the <i>Public Accounts</i> release within the established target of 90-120 days. The 1995/96 <i>Public Accounts</i> had been tabled on September 30, 1996.
Release quarterly financial statements on the PSAAB basis and include updated fiscal and economic forecasts and comparison to <i>Budget</i> and prior year numbers.	The recommendation was accepted by the government. System changes are needed to permit reporting of year-to-date numbers on a PSAAB basis and will be implemented as part of the one financial system project.
The government clarify the ownership of Ontario Hydro to end confusion in financial reporting.	The government accepts this recommendation in principle and is working with Ontario Hydro on this and other matters impacting the future of the electricity market in Ontario.
A credible plan is needed to eliminate the unfunded liability of the WCB. The plan should include benchmarks and corrective action if benchmarks are not being met.	Bill 99, the <i>Workers' Compensation Reform Act</i> , is awaiting 3 rd reading in the Legislative Assembly. Upon proclamation, the Bill would introduce changes in benefit levels and indexing that would immediately reduce the WCB's unfunded liability. These changes, coupled with significant service improvements at the Board, are expected to retire the unfunded liability by the year 2014.
The government continue to expense all spending on assets but adopt PSAAB standards for capital assets if and when new standards are issued.	The government is actively considering the future implementation of the recently approved PSAAB recommendations for tangible capital assets as part of the one financial system project.

*Source: Ministry of Finance

As can be seen from the current status column of the chart, progress is being made by the government in implementing the outstanding financial reporting and accounting recommendations made by the Ontario Financial Review Commission. Nevertheless, several of the Commission's recommendations warrant further comment.

SPENDING AUTHORITY ON PSAAB BASIS

The government requires the approval of the Legislative Assembly for the funds it intends to spend each year. As a first step in requesting such approval, near the start of each fiscal year, the government tables an annual *Budget* outlining in general terms its proposed spending plans for the year. Shortly thereafter, the government tables the *Expenditure Estimates* which outline each ministry's spending proposals on a program-by-program basis. The Legislative Assembly then provides the government with legal spending authority by approving the *Supply Act* which stipulates the amounts that can be spent according to the *Estimates*.

The Ontario Financial Review Commission recommended "that the government adopt PSAAB standards for the *Budget*, related spending authority and updates on the fiscal situation." The government has successfully adopted PSAAB standards for the *Budget* and the quarterly fiscal updates.

With respect to spending authority, the Commission suggested making the entire process of planning and reporting consistent by using the PSAAB basis to prepare the *Estimates* and any other detailed financial information that supplemented or replaced the *Estimates*. However, the *Estimates* still are prepared on the modified cash basis of accounting. While a summary is provided, reconciling each ministry's proposed cash expenditures with their expenditures on a PSAAB basis as outlined in the *Budget*, legislative spending authority and appropriation controls are still on the cash basis of accounting.

The Commission also recommended that, besides providing quarterly fiscal updates, the "government produce quarterly financial statements on the PSAAB basis." It concluded that having the quarterly financial statements compare actual year-to-date results for the current year to the previous year would provide useful new information. While the government accepted this recommendation, it noted that system changes would be needed before year-to-date actual results on the PSAAB basis could be produced.

The Commission acknowledged that to change spending authority and appropriations control to the PSAAB basis would be very time consuming and costly, given the myriad of different accounting systems in place across the government that are presently geared to the cash basis of accounting. Additionally, the adoption of a PSAAB-based spending authority would require various legislative changes such as amendments to the *Ministry of Treasury and Economics Act*.

I understand that a number of other provinces have made or are in the process of making the necessary legislative and administrative changes for converting the spending authority to the PSAAB basis so that the process of planning, reporting, monitoring and evaluating is on a consistent basis of accounting. While acknowledging that this will be a significant undertaking, I encourage the government and the Legislative Assembly to work toward achievement of the same objective.

INTEGRATED GOVERNMENT-WIDE FINANCIAL SYSTEM

In view of the fact that generally Ontario government ministries had been using different accounting systems that were largely incompatible with each other, the Ontario Financial Review Commission recommended that the government adopt a single integrated financial management and reporting system. It concluded that such a system would offer a number of advantages, including:

- allowing on-line access to central data to support operational monitoring and decision making;
- eliminating duplication of effort and data storage among ministries;
- adopting new technologies that would improve service and accessibility of information, and lower costs; and
- allowing detailed expenditure information to be prepared on the PSAAB basis at a reasonable cost and facilitating the earlier preparation of the *Public Accounts*.

The Commission also recognized the contribution that an integrated financial system could make in addressing certain obstacles that the government was currently facing in meeting its deficit reduction goals in the most effective and efficient manner. The Commission noted that:

...At the ministry level, because (expenditure) cuts are applied uniformly, a ministry which is operating efficiently will face the same proportionate spending cut as a ministry which may be highly inefficient.

This reflects a failure to set consistently rigorous performance standards for expected ministry and program performance. Existing financial-management and reporting systems in ministries are incompatible, so it is difficult or impossible to compare performance data on a consistent basis. ...Moving to a single financial management and reporting system is vital to this effort and to measuring results consistently.

The Commission also expressed concern that Ontario has been slower than other jurisdictions to pursue these benefits and was the only province that was not either currently using, or moving toward, a unified financial system. The Commission acknowledged that the Ministry of Finance had done a cost-benefit study of a single financial system and suggested that this study be reviewed externally.

In response, the Ministry of Finance engaged two private sector firms to jointly review its study and conduct a needs assessment and evaluation. The firms concluded that the current and future financial information needs of decision makers in the Ontario government could not be met by the existing systems. In April 1997 the government approved the implementation of a single, integrated, corporate financial system. An implementation plan and timetable have been developed and a new senior level position has been established to provide appropriate leadership for this important and technologically challenging project.

PROVINCE OF ONTARIO ANNUAL REPORT NOW PREPARED

In my 1995 *Annual Report* I urged the government to prepare an annual report consisting of an easily understandable analysis and management commentary on the financial and operational results for the year. The Ontario Financial Review Commission also recommended that the government produce an annual report and suggested that it:

- include financial statements comparing actual results to prior year results and to the *Budget* plan;
- include a 10-12 page "management discussion and analysis" section reporting the financial and economic highlights and performance against the goals set out in the *Budget* and business plan; and
- be written in clear, non-technical language, using graphics where appropriate.

For the second consecutive year, the Province of Ontario has tabled an annual report. These reports go a long way toward enhancing the fiscal accountability of the government to both the Legislative Assembly and the public.

OTHER MATTERS

The Provincial Auditor is required under section 12 of the *Audit Act* to report on any Special Warrants and Treasury Board Orders issued during the year. Additionally, under section 91 of the *Legislative Assembly Act*, the Provincial Auditor is required to report on any transfers of money between Items within the same Vote in the *Estimates* of the Office of the Legislative Assembly.

LEGISLATIVE APPROVAL OF GOVERNMENT EXPENDITURES

The government tables detailed *Expenditure Estimates*, outlining each ministry's spending proposals on a program-by-program basis, shortly after presenting its *Budget*. The Standing Committee on Estimates reviews selected ministry *Estimates* and presents one report to the Legislature with respect to those ministry *Estimates* that were reviewed. The *Estimates* of those ministries that are not selected for review are deemed to be passed by the Committee and reported as such to the Legislature. Orders for Concurrence for each of the *Estimates* reported on by the Committee are then debated in the Legislature for a maximum of six hours and then voted on.

Once the Orders for Concurrence are approved, the Legislature provides the government with legal spending authority by approving the *Supply Act* which stipulates the amounts that can be spent according to the ministry programs as set out in the *Estimates*. Once the *Supply Act* is approved, the individual program expenditures are considered Voted Appropriations. The *Supply Act, 1997*, pertaining to the fiscal year ended March 31, 1997, received Royal Assent on September 3, 1997.

Prior to the passage of the *Supply Act*, the Legislature authorizes payments by means of motions for interim supply. For the 1996/97 fiscal year, the time periods covered by the motions for interim supply and the dates that the motions were agreed to by the Legislature were as follows:

- December 1, 1995 to April 30, 1996 — passed November 23, 1995;
- May 1, 1996 to October 31, 1996 — passed April 16, 1996; and
- November 1, 1996 to April 30, 1997 — passed October 24, 1996.

SPECIAL WARRANTS

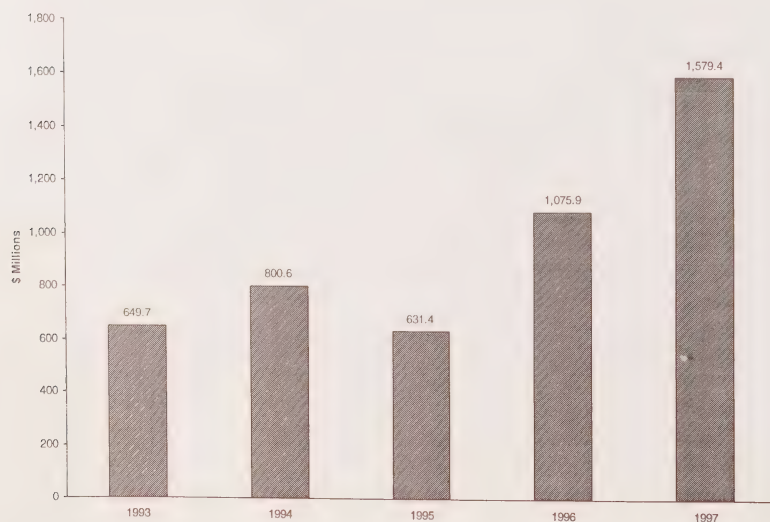
If motions for interim supply cannot be approved because the Legislature is not in session, section 7 of the *Treasury Board Act, 1991* allows the issue of a Special Warrant authorizing the expenditure of money for which there is no appropriation by the Legislature. Special Warrants are authorized by Orders in Council approved by the Lieutenant-Governor on the recommendation of the government.

As the three motions of interim supply covered the period from April 1, 1996 to March 31, 1997, no Special Warrants were required during the 1996/97 fiscal year.

TREASURY BOARD ORDERS

Section 8 of the *Treasury Board Act, 1991* allows the Treasury Board to make an order authorizing payments to supplement the amount of any Voted Appropriation which is insufficient to carry out the purpose for which it was made, provided the amount of the increase is offset by a corresponding reduction of expenditures from other Voted Appropriations. The order may be made at any time before the first day of May following the end of the fiscal year in which the supplemented appropriation was made.

The following chart is a summary of Treasury Board Orders issued for the past five fiscal years:



Treasury Board Orders for the 1996/97 fiscal year summarized by month of issue are as follows:

Month of Issue	Number	Authorized \$
September 1996-February 1997	18	666,736,500
March 1997	7	184,130,900
April 1997	15	728,564,400
	40	1,579,431,800

5.00

In accordance with a Standing Order of the Legislative Assembly, the preceding Treasury Board Orders have been listed in *The Ontario Gazette*, together with explanatory information. A detailed listing of Treasury Board Orders, showing the amounts authorized and expended, is included as Exhibit Four of this Report.

TRANSFERS AUTHORIZED BY THE BOARD OF INTERNAL ECONOMY

When the Board of Internal Economy authorizes the transfer of money from one Item of the *Estimates* of the Office of the Assembly to another Item within the same Vote, section 91 of the *Legislative Assembly Act* requires the Provincial Auditor to make special mention of the transfer(s) in the *Annual Report*.

In respect of the 1996/97 *Estimates*, the following transfers were made within Vote 201:

From:	Item 5	Assembly Services	\$	94,000
To:	Item 4	Finance and Administration		51,000
	Item 10	Restructuring Costs		43,000

In addition, within Vote 202, \$21,000 was transferred from Item 3 (Office of the Information and Privacy Commissioner) to Item 4 (Office of the Integrity Commissioner).

UNCOLLECTABLE ACCOUNTS

Under section 5 of the *Financial Administration Act*, the Lieutenant-Governor in Council, on the recommendation of the Minister of Finance, may authorize an Order in Council to delete from the accounts any amount due to the Crown which is deemed uncollectable. The losses deleted from the accounts during any fiscal year are to be reported in the *Public Accounts*.

In the 1996/97 fiscal year, receivables of \$116.5 million (in 1995/96 the comparable amount was \$185.7 million) due to the Crown from individuals and non-government organizations were written off.

Under the accounting policies followed in the audited Financial Statements of the province, a provision for doubtful accounts is recorded against the accounts receivable balances. Accord-

ingly, most of the \$116.5 million in write-offs had already been provided for in the audited Financial Statements. However, the actual deletion from the accounts required Order-in-Council approval. Page 3-105 of *Volume 2 of the Public Accounts* provides a listing of these write-offs in total by ministry or Crown agency.

The major portion of the write-offs related to the following:

- \$76.8 million for uncollectable taxes relating to various tax receivables;
- \$13.3 million for uncollectable loans made under the *Development Corporations Act*;
- \$9.7 million pertaining to uncollectable overpayments made under the *Family Benefits Act* and the *General Welfare Act*; and
- \$6.7 million for uncollectable loans made under the Ontario Student Loan program and the Ontario Study Grant Plan.

CHAPTER SIX

The Office of the Provincial Auditor

6.00

MISSION STATEMENT

Our mission is to report to the Legislative Assembly objective information and recommendations resulting from our independent audits of the government's programs, its Crown agencies and corporations. In doing so, the Office assists the Assembly in holding the government and its administrators accountable for the quality of the administration's stewardship of public funds and for the achievement of value for money in government operations.

We audit the accounts and records of the receipt and disbursement of public money forming part of the Consolidated Revenue Fund, the financial statements of the province and the accounts of agencies of the Crown. Our responsibilities are set out in the *Audit Act* (Exhibit Six in this Report).

The Office thus fulfils its mission by conducting value for money, attest and compliance audits and by presenting this *Annual Report* to the Legislative Assembly. We also assist and advise the Standing Committee on Public Accounts in its review of the *Public Accounts* of the province and the *Annual Report* of the Provincial Auditor.

INDEPENDENCE

The Provincial Auditor is appointed as an officer of the Legislative Assembly by the Lieutenant-Governor in Council on the address of the Assembly. This is done after consultation with the Chair of the Standing Committee on Public Accounts on the recommendation of the Committee. The Provincial Auditor and staff of the Office are independent of the government and its administration. We have access to all relevant information and records necessary to the performance of our duties under the *Audit Act*. Our independence is a safeguard which enables the Office to fulfil its auditing and reporting responsibilities objectively and fairly.

The Board of Internal Economy, an all-party legislative committee independent of the government's administrative process, reviews our budget, which is subsequently laid before the Legislative Assembly. As required by the *Audit Act*, the Office's expenditures relating to the 1996/97 fiscal year have been audited by a firm of chartered accountants appointed by the Board and are presented at the end of this chapter. The audited statement of expenditure is submitted annually to the Board and subsequently tabled in the Assembly.

AUDIT RESPONSIBILITIES

PRIMARY RESPONSIBILITY

The primary responsibility of the Office is to audit the administration of government programs and activities, as carried out by ministries and agencies of the Crown under government policies.

Our audit responsibilities do not extend to government policy matters. The Office does not audit government policies or information contained in cabinet documents used in policy deliberations or decisions. The government is held accountable for policy matters by the Legislative Assembly, which continually monitors and challenges government policies and programs through questions during legislative sessions and through reviews of legislation and expenditure estimates.

ACCOUNTS OF THE PROVINCE AND MINISTRIES

The Provincial Auditor, per subsection 9(1) of the *Audit Act*, is required to audit the accounts and records of the receipt and disbursement of public money forming part of the Consolidated Revenue Fund whether held in trust or otherwise. To this end, the Office carries out an annual attest audit to enable the Provincial Auditor to express an opinion on the province's summary financial statements and carries out cyclical value for money audits to report thereon in accordance with subsection 12(2) of the *Audit Act*. Exhibit One in this Report lists the value for money audits conducted in 1996/97.

AGENCIES OF THE CROWN AND CROWN CONTROLLED CORPORATIONS

The Provincial Auditor, per subsection 9(2) of the *Audit Act*, is required to audit those agencies of the Crown that are not audited by another auditor. Exhibit Two, part (i), lists the agencies audited during the 1996/97 audit year. Public accounting firms are currently contracted by the Office to audit the financial statements of several of these agencies on its behalf.

Exhibit Two, part (ii), and Exhibit Three list the agencies of the Crown and Crown controlled corporations audited by public accounting firms during the 1996/97 audit year. Subsection 9(2) of the *Audit Act* requires public accounting firms that are appointed auditors of agencies of the Crown to perform their audits under the direction of, and to report to, the Provincial Auditor. Under subsection 9(3) of the Act, public accounting firms auditing Crown controlled corporations are required to deliver a copy of the audited financial statements to the Provincial Auditor, as well as a copy of their findings and recommendations to management (management letter).

ADDITIONAL AUDIT RESPONSIBILITIES

Under section 16 of the *Audit Act*, the Provincial Auditor may, by resolution of the Standing Committee on Public Accounts, be required to examine and report on any matter respecting the Public Accounts.

Section 17 of the Act requires the Provincial Auditor to undertake special assignments requested by either the Assembly, the Standing Committee on Public Accounts (by resolution of the Committee), or by a minister of the Crown. However, these special assignments are not to

take precedence over the Auditor's other duties. The Provincial Auditor can decline an assignment referred by a minister if, in the opinion of the Auditor, it conflicts with other duties.

During the period of audit activity (October 1996 to September 1997) covered by this Report, the Provincial Auditor conducted assignments related to two resolutions of the Standing Committee on Public Accounts. The nature of the two assignments is explained more fully in Chapter Seven of this Report under "Requests for Special Audits."

AUDIT ACTIVITIES

TYPES OF AUDITS

Value for money, compliance and attest audits are the three main types of audits carried out by the Office. All such audits are performed in accordance with generally accepted auditing standards. In addition, inspection audits of selected grant recipient organizations may be conducted under section 13 of the *Audit Act*. The following are brief descriptions of each of these audit categories.

VALUE FOR MONEY

Subsection 12(2) of the *Audit Act* requires the Office to report on any cases observed where money was spent without due regard to economy and efficiency, or where appropriate procedures were not taken to measure and report on the effectiveness of programs. This value for money mandate is exercised with respect to various ministry and Crown agency programs and activities. The Office does not have a mandate under the *Audit Act* to conduct value for money audits of grant recipients, but may assess the steps taken by a ministry/agency to satisfy itself that funds provided to organizations are well managed.

It is not part of the Office's mandate to evaluate the effectiveness of programs or develop standards to measure the efficiency of program delivery, as these functions are the responsibility of the ministry/agency management. The Office is only responsible for assessing the extent to which these functions have been carried out by ministry/agency management.

COMPLIANCE

Compliance audits are carried out in ministries and Crown agencies in order to assess whether transactions and other aspects of operations are in compliance with legislative and administrative requirements. The Office generally conducts such audit work as a component of our value for money and attest audits.

ATTEST

Attest (financial) audits are designed to permit the expression of a professional opinion on a set of financial statements. The opinion states whether the operations and financial position of the entity have been fairly presented in compliance with appropriate accounting policies. The Office conducts attest audits of the summary financial statements of the province and of various Crown agencies on an annual basis.

INSPECTION AUDITS OF GRANT RECIPIENT ORGANIZATIONS

Grants to organizations such as hospitals, universities, school boards, municipalities and thousands of smaller organizations amount to approximately 50% of total government expenditures, and are subject to inspection audits. An inspection audit is defined in the *Audit Act* as an examination of accounting records. Although value for money observations may arise as a by-product of such audits, the audits are not value for money oriented, because only accounting records can be examined in inspection audits.

The Office may, where circumstances warrant the extension of a ministry or agency audit, conduct inspection audits of grant recipients. In the past, the Office has carried out inspection audits of major recipients of grants, specifically community colleges, universities, hospitals and school boards. However, in recent years, the Office has deferred major inspection audit activity pending consideration of a proposal to amend the *Audit Act* to permit the Office to access all records and information necessary to perform full scope audits, including value for money, of grant recipients. Further details and background on the subject of amendments to the *Audit Act* are provided in Chapter Seven in the section entitled "Status of Committee Recommendation Respecting Amendments to the *Audit Act*."

Payments are also made to individuals under a variety of programs, such as the Ontario Health Insurance Plan or the Provincial Allowances and Benefits program. Such individual recipients of government funds are not, and should not be, subject to direct audit by the Provincial Auditor.

SCHEDULING OF AUDIT ACTIVITIES

MINISTRY AUDITS

All major ministry programs are considered for audit over a five-year cycle. These cyclical audits are primarily value for money oriented and include major information systems related to these programs. They deal specifically with the administration of programs and activities by management.

Various factors are considered in rating the priority of an audit. The factors considered include: total expenditures, last time audited and results of previous cyclical audits, and work completed or planned by internal audit. Risk assessments are also carried out to determine whether a program should be audited. In assessing the various risk factors, including the impact of a program on the public, we attempt to determine the possible matters of significance which may result from auditing a program. The following are major factors considered in planning each audit:

- mandate under the *Audit Act*;
- clarity of management's objectives and goals;
- quality of financial and management information, systems, procedures and controls;
- estimated costs, benefit and duration of an audit; and
- complexity/diversity of operations.

The amount of work done by ministry and agency internal auditors and the breadth of its scope can have a major impact on the timing, frequency and extent of our audit activity. By having

access to internal audit work plans, working papers and reports, the Office is able to avoid duplication of effort by relying, to the extent possible, on internal audit activities.

AGENCY AUDITS

Agencies of the Crown are audited annually (attest audits) as required by legislation. While value for money observations may arise during these audits, the Office also periodically performs more in-depth value for money audits at selected agencies.

SPECIAL ASSIGNMENTS

The Office may undertake special assignments at ministries and their agencies as requested by the Legislative Assembly, the Standing Committee on Public Accounts or a minister of the Crown. These audits are scheduled as resources permit.

REPORTING ACTIVITIES

MINISTRY AUDITS

Our draft reports and management letters are considered to be an integral part of our audit working papers and, according to section 19 of the *Audit Act*, are not required to be laid before the Assembly or any of its committees.

The Office prepares a preliminary draft report for discussion and factual clearance as each audit is completed. The preliminary draft report is discussed with senior ministry officials and revised, as necessary, to reflect the results of the discussion. The resulting draft report with the ministry response included is then reviewed with the appropriate deputy minister. Following clearance of the preliminary draft report and the Ministry's response at the deputy minister level, a final draft report is prepared and issued to the deputy minister and, where deemed necessary, to the minister. We also provide a copy of all final draft reports to the Secretary of the Management Board of Cabinet. These final draft audit reports form the basis for the preparation of our *Annual Report* to the Legislative Assembly.

AGENCY AUDITS

With respect to attest audits of agencies, agency legislation normally stipulates that the Provincial Auditor's reporting responsibilities are to the agency's board and the minister(s) responsible. Also, we provide copies of the audit opinions and of the related agency financial statements to the deputy minister of the associated ministry as well as to the Secretary of the Management Board of Cabinet.

In instances where matters which require improvements by management have been noted during the course of an agency attest audit, a draft management letter is prepared and discussed with senior management and revised, as necessary, to reflect the results of the discussion. The draft management letter with management's response included is also reviewed with the agency's chief executive officer. Following clearance of the draft management letter and the response of the agency's senior management, a final management letter is prepared and, if deemed necessary, issued to the agency head (chair). Depending on the significance of the content of the management letter, a copy of it may also be forwarded to the minister and deputy minister of the associated ministry and to the Secretary of the Management Board of Cabinet.

Matters of significance contained in the management letter may also be included in the Provincial Auditor's *Annual Report* to the Legislative Assembly.

SPECIAL ASSIGNMENTS

Under sections 16 and 17 of the *Audit Act*, the Office has additional reporting responsibilities relating to special assignments for the Legislative Assembly, the Standing Committee on Public Accounts or a minister of the Crown. At the conclusion of such work, the Provincial Auditor normally reports to the initiating authority of the assignment.

ANNUAL REPORT

In each *Annual Report*, we identify areas where improvements can be made to the economy, efficiency and effectiveness of government operations. Our audit observations are accompanied by recommendations for improvement and, wherever possible, we attempt to provide quantitative indicators of the significance of the observations.

To ensure that our recommendations receive timely attention, we follow up on the progress of action taken by the ministry/agency to address our audit observations and recommendations and report on their status two years after the audit is reported. A detailed account of the current status of recommendations made in the *1995 Annual Report* is provided in Chapter Four of this Report.

OFFICE ORGANIZATION AND PERSONNEL

The Office organization consists of management teams, each of which is headed by a director responsible for the audits of a sizeable portfolio. Audit managers are assigned to portfolios. The composition of the portfolios attempts to align somewhat related audit entities and to foster expertise in the various areas of audit activity. The portfolio directors, the Assistant Provincial Auditor and the Provincial Auditor make up the Office's Executive Steering Committee (ESC). The executive management of the Office as at September 30, 1997 consisted of:

Erik Peters, FCA	-	Provincial Auditor
Ken Leishman, CA	-	Assistant Provincial Auditor
Jim McCarter, CA	-	Executive Director, Finance, Public Accounts, Management Board Secretariat and Professional Practices Portfolio
Walter Bordne, CA	-	Director, Community and Social Services and Revenue Portfolio
Andrew Cheung, CA	-	Director, Justice and Regulatory Portfolio
Gerard Fitzmaurice, CA	-	Director, Economic Development and Transportation Portfolio
John McDowell, CA	-	Director, Crown Agencies, Corporations, Boards and Commissions Portfolio
Nick Mishchenko, CMA	-	Director, Health Portfolio
Gary Peall, CA	-	Director, Education and Training, and Municipal Affairs and Housing Portfolio

Annemarie Wiebe, the Manager of Human Resources, regularly attends meetings of the ESC to provide advice on matters related to human resources.

The audit managers, together with the members of the ESC, constitute the Office's Resource Planning and Allocation Committee. All audit staff below the level of audit manager are assigned to audits from an audit staff pool.

CODE OF PROFESSIONAL CONDUCT

The Office has a *Code of Professional Conduct* to encourage staff to maintain high professional standards and ensure a professional work environment. It is intended to be a general statement of philosophy, principles and rules regarding conduct for employees of the Office, who have a duty to conduct themselves in a professional manner and to strive to achieve the highest standards of behaviour, competence and integrity in their work. The Code provides the reasoning for these expectations and further describes the Office's responsibilities to the Legislative Assembly, the public and our audit entities. The Code also provides guidance on disclosure requirements and the steps to be taken to avoid conflict of interest situations.

CANADIAN CONFERENCE OF LEGISLATIVE AUDITORS

The 25th annual meeting of the Conference of Legislative Auditors was held in Edmonton, Alberta from September 14 to 16, 1997. This annual gathering, bringing together legislative auditors from the federal government and the provinces, provides a useful forum for sharing ideas and exchanging information important to the work of the legislative auditing community.

The Provincial Auditor and the Assistant Provincial Auditor attended this year's conference, which covered such topics as:

- strategic planning for audit offices;
- audit evidence for performance auditing;
- activities of the Public Sector Accounting and Auditing Board of the Canadian Institute of Chartered Accountants;
- public sector accountability guiding principles; and
- a joint session with the Canadian Council of Public Accounts Committees on the subject of *Improving the Management and Control of Public Resources*.

ACKNOWLEDGMENTS

EXTERNAL ADVISORY COMMITTEE

The external Advisory Committee periodically reviews the Office's audit approach, analyzes the Office profile and provides advice relating to sensitive audit issues. The Committee meets at the call of the Provincial Auditor.

The Committee's members combine the independence of current association with the private sector with extensive knowledge of the parliamentary system and the function of government. The current members are Messrs. Rendall Dick, LSM; David Knight, FCA; Robert Lord, FCA; Ron Moore, FCA; and David Wilson, FCA.

AUDITEES AND STAFF

The Provincial Auditor expresses sincere appreciation to the officials of ministries, agencies and other entities for their cooperation in providing his staff with all the information and explanations required during the performance of the Office's audit work.

The Provincial Auditor extends a special appreciation to the staff of the Office for their dedication, competence and the professional manner in which they have carried out their duties.

OFFICE EXPENDITURE

The following is the 1997 audited Statement of Expenditure for the Office.

**Office of the Provincial Auditor
Statement of Expenditure
For the Year Ended March 31, 1997**

	1997		1996	
	<u>Actual</u> (\$000s)	<u>Estimates</u> (\$000s)	<u>Actual</u> (\$000s)	<u>Estimates</u> (\$000s)
Salaries and wages	4,500	4,581	4,652	5,120
Employee benefits (note 2)	680	678	830	724
Transportation and communication	126	179	149	195
Services	1,375	1,381	1,318	1,407
Supplies and equipment	153	59	75	81
Transfer payment - CCAF - FCVI Inc.				
	<u>50</u>	<u>50</u>	<u>50</u>	<u>50</u>
	6,884	6,928	7,074	7,577
The Audit Act	<u>138</u>	<u>138</u>	<u>137</u>	<u>188</u>
	<u>7,022</u>	<u>7,066</u>	<u>7,211</u>	<u>7,765</u>

Notes:

1. *Accounting Policy*

The statement of expenditure has been prepared using a modified cash basis of accounting which allows for an additional 30 days to pay for goods and services received during the fiscal year just ended.

2. *Pension Plan*

The Office provides pension benefits for its employees through participation in the Public Service Pension Fund (PSPF) established by the Province of Ontario.

The Ontario Public Service Employees' Union Pension Act, 1994 provides for a reduction of the employer's contributions to the PSPF for each of the three fiscal years ending 1995-97. For the current fiscal year, the impact of these reductions on the Office's pension expense was a reduction of \$402,400 (1996 - \$402,400).

The Office's contribution related to the PSPF for the year was \$162,892 (1996 - \$253,759) and is included in Employee benefits.

3. Public Sector Salary Disclosure Act, 1996

In accordance with the requirements of subsection 3(5) of the Public Sector Salary Disclosure Act, 1996, the following individual was paid an annual salary in excess of \$100,000 in the 1996 calendar year.

		<i>Salary Paid \$</i>	<i>Taxable Benefits \$</i>
<i>Peters, Erik</i>	<i>Provincial Auditor</i>	<i>137,579</i>	<i>4,883</i>

Auditors' Report

TO THE BOARD OF INTERNAL ECONOMY THE PROVINCE OF ONTARIO

We have audited the statement of expenditure of the Office of the Provincial Auditor for the year ended March 31, 1997. This statement is the responsibility of the organization's management. Our responsibility is to express an opinion on this statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation.

In our opinion, this statement presents fairly, in all material respects, the expenditures of the Office of the Provincial Auditor for the year ended March 31, 1997 in accordance with the accounting policy referred to in note 1 to the statement.

Toronto, Ontario
July 2, 1997

ALLEN & MILES
CHARTERED ACCOUNTANTS

CHAPTER SEVEN

The Standing Committee on Public Accounts

7.00

APPOINTMENT AND COMPOSITION OF THE COMMITTEE

The Standing Orders of the Legislature provide for the appointment of an all-party Standing Committee on Public Accounts for each session of the Legislature.

The membership of the Committee is approximately proportional to the respective party membership in the Legislature. All members are entitled to vote on motions with the exception of the Chair, whose vote is restricted to the breaking of a tie.

In accordance with the Standing Orders, a Standing Committee on Public Accounts was appointed on October 17, 1995, soon after the commencement of the First Session of the Thirty-sixth Parliament. The membership of the Committee at June 26, 1997 when the House adjourned for the summer recess was as follows:

Bernard Grandmaître, Chair, Liberal
Richard Patten, Vice-Chair, Liberal
Gary Fox, Progressive Conservative
Bill Grimmett, Progressive Conservative
Helen Johns, Progressive Conservative
Jean-Marc Lalonde, Liberal
Shelley Martel, New Democrat
Bill Murdoch, Progressive Conservative
Gilles Pouliot, New Democrat
Peter Preston, Progressive Conservative
Sandra Papatello, Liberal
Derwyn Shea, Progressive Conservative
Toni Skarica, Progressive Conservative
Joseph Tascona, Progressive Conservative

ROLE OF THE COMMITTEE

The Committee examines, assesses and reports to the Legislature on a number of issues, including the economy and efficiency of government operations; the effectiveness of programs in achieving their objectives; controls over assets, expenditures and the assessment and collection of revenues; and the reliability and appropriateness of information in the *Public Accounts*.

In fulfilling this role, the Committee reviews and reports to the Legislature its observations, opinions and recommendations on selected matters in the *Annual Report* of the Provincial Auditor and the *Public Accounts*. These documents are deemed to have been referred to the Committee as they become available.

PROVINCIAL AUDITOR'S ROLE IN THE PROCESS

The Provincial Auditor assists the Committee by providing appropriate audit information for use by the Committee in its scrutiny of government programs and financial activities.

Additionally, the Provincial Auditor and senior staff attend committee meetings during the review of the *Annual Report* of the Provincial Auditor and the *Public Accounts*, and in order to assist the Committee in planning its agenda.

COMMITTEE PROCEDURES AND OPERATIONS

GENERAL

The Committee meets on Thursday mornings when the Legislature is sitting. At times, the Committee also meets during the summer and winter when the Legislature is not sitting. All meetings are open to the public with the exception of those dealing with the setting of the Committee's agenda and the preparation of committee reports.

At meetings dealing with ministry operations, the deputy minister, usually accompanied by senior ministry officials, answers questions raised by committee members. Since the Committee is concerned with administrative rather than policy matters, ministers rarely attend. When the Committee is reviewing Crown agencies, the chief executive officer, usually accompanied by senior agency staff and, at times, the chair of the board, attend the meetings.

MEETINGS HELD

From October 1996 to September 1997, the Committee met regularly on its designated meeting day when the Legislature was sitting. The Committee's work during this period included:

- reviewing the following subjects from the Provincial Auditor's *1996 Annual Report*:
 - Ministry of Community and Social Services — Provincial Allowances and Benefits and Supportive Services Programs;
 - Ontario Transportation Capital Corporation — Highway 407 Central Project;
 - Ministry of Education and Training — Colleges of Applied Arts and Technology and Ontario Training and Adjustment Board;
 - Ministry of Environment and Energy — Environmental Sciences and Standards Division;
 - Ministry of Health — Drug Benefits Program, Assistive Device Services Activity, Alternate Payment Program, Independent Health Facilities, and Whitby Mental Health Centre;
 - Ministry of Labour— Occupational Health and Safety Program; and
 - Ontario Realty Corporation — Property Management Division.

-
- preparing reports on the Committee's reviews to the Legislature.

REQUESTS FOR SPECIAL AUDITS

During the October 1996 to September 1997 period, the Committee passed the following motions under section 17 of the *Audit Act*:

- On January 30, 1997

That the Standing Committee on Public Accounts request that the Ministry of Community and Social Services develop the cost comparison between institutionalized individuals (Schedule Ones) and these same type of people based in community agencies within four months, as of this Committee's meeting (today), and that these cost comparisons be audited by the Provincial Auditor under section 17 of the Audit Act.

On May 28, 1997, the Ministry submitted to the Office of the Provincial Auditor a report on the comparative costs of facility- and community-based care for individuals transferred as a result of the two most recent closures of Schedule 1 facilities.

The Office of the Provincial Auditor is currently auditing the methodology and supporting records for the report prepared by the Ministry and expects to report to the Committee in the fall of 1997.

- On April 24, 1997

That the Provincial Auditor provide the Committee with some comment on the quality of the new service arrangement of having the internal audit of the Ministry of Labour being provided by the Ministry of Finance's Internal Audit Branch.

The Office of the Provincial Auditor has commenced a review of the new arrangement for the provision of internal audit services to the Ministry of Labour. At the conclusion of our review, a report will be made to the Standing Committee on Public Accounts.

COMMITTEE PROCEDURES

The Committee conducts hearings and then reports its comments and recommendations to the Legislature. Committee procedures include the following:

- in-depth briefings and preparation;
- site visits to discuss concerns and obtain first-hand knowledge of everyday working conditions in the field;
- when practical, the inclusion of ministry responses in committee reports; and
- follow-up of committee recommendations.

The Committee also follows up in writing with those ministries and Crown agencies not selected for detailed review by the Committee regarding their plans and timetable to address the concerns raised in the Provincial Auditor's *Annual Report*. This process enables the auditee to update the Committee on activities since the completion of the audit, such as any initiatives taken to address the Provincial Auditor's recommendations.

REPORTS OF THE COMMITTEE

GENERAL

The Committee issues its reports to the Legislature. These reports contain a précis of the information reviewed by the Committee during its meetings, together with comments and recommendations.

All Committee reports are available through the Clerk of the Committee, thus affording public access to full details of committee deliberations.

A report to the Legislature covering the Committee's 1996/97 activities has been prepared.

FOLLOW-UP OF RECOMMENDATIONS MADE BY THE COMMITTEE

The Clerk of the Committee is responsible for following up on the actions taken by ministries or agencies on the Committee's recommendations. The Office of the Provincial Auditor confers with the Clerk to ascertain the status of the recommendations and, if considered necessary, would bring any significant matters to the attention of the Legislature in the Provincial Auditor's *Annual Report*.

STATUS OF COMMITTEE RECOMMENDATION RESPECTING AMENDMENTS TO THE AUDIT ACT

Recent Standing Committees on Public Accounts have expressed their support for the Provincial Auditor's views and concerns respecting the current limitations of the scope of inspection audits of certain grant recipients under the *Audit Act*. These grant recipients receive about \$28 billion from the province each year, which is about 50% of the province's annual spending.

Under the current *Audit Act*, the Provincial Auditor may carry out only financial and compliance audits of grant recipients to determine whether the grants were used for the intended purposes. In early 1996 the Committee held public hearings on proposed amendments to the *Audit Act* and invited the deputy ministers of the main transfer payment ministries and representatives of the major transfer payment partners and other interested organizations to meet and discuss the proposed changes. The primary objective of the proposed amendments is to provide the Provincial Auditor with the discretionary authority to perform value for money audits of organizations, such as community colleges, universities, hospitals, municipalities and school boards, which receive grants from the Province of Ontario or from an agency of the Crown. Other amendments, mainly of an administrative nature, have also been proposed.

At the conclusion of the public hearings process, the Provincial Auditor on June 13, 1996 submitted to the Committee specific draft proposals for amending the *Audit Act*. After discussion of the proposed amendments, the Committee unanimously adopted the following motion:

That the proposed amendments be provided to the Minister of Finance and that the Committee requests a response and action plan from the Minister of Finance by the Committee's first meeting following the Summer recess [September 26, 1996].

In a letter to the Committee Chair dated September 26, 1996, the Minister of Finance responded in part as follows:

The draft bill to amend the Audit Act as developed by the Provincial Auditor, in consultation with the Office of the Legislative Counsel, represents a significant step towards the fundamental reform of the public sector accountability system and I agree with the principles upon which it is based.

I concur with the proposed amendments dealing with the administrative changes to modernize the Act and to have the Auditor express an opinion as to whether the province's financial statements are presented fairly in accordance with the accounting principles which the Canadian Institute of Chartered Accountants has recommended for governments. This requirement is consistent with the direction taken by the government in response to the recommendations of the Ontario Financial Review Commission.

With respect to the amendments affecting the auditing of transfer payment recipients, it should be noted that a number of initiatives are underway, including the Who Does What discussions, which may result in a significant restructuring of the nature and magnitude of the Province's transfer payment arrangements. It may be more appropriate to assess needed changes to the auditing of transfer payments following this restructuring.

The Provincial Auditor met with the Minister of Finance on October 2, 1996 to discuss this subject and the timeframe for introducing a Bill to amend the *Audit Act*, given the possible restructuring in the transfer payment area as a result of the "Who Does What" discussions. In this regard, it was the Minister's preference to await the outcome of the transfer payment restructuring exercise, likely to be substantially completed by the fall of 1997, before considering possible amendments to the *Audit Act*.

RELATED MATTERS: INTRODUCTION OF PRIVATE MEMBERS' BILLS TO AMEND THE *AUDIT ACT*

- On June 12, 1996, Mr. Bernard Grandmaître, MPP for Ottawa East, introduced Bill 74 entitled *An Act to amend the Audit Act*.

The purpose of the Bill is to allow the Provincial Auditor to present the Speaker of the Legislature with up to three reports a year, in addition to the Auditor's *Annual Report*. The Provincial Auditor would retain the power to submit special reports to the Speaker whenever the Auditor believes that a matter is urgent.

On March 6, 1997, Bill 74 passed Second Reading and was referred to the Standing Committee on Public Accounts for its consideration.

- On November 5, 1996, Mr. Bart Maves, MPP for Niagara Falls, introduced Bill 89 entitled *An Act to amend the Audit Act to improve the accountability of hospitals, school boards, universities and colleges, municipalities and other organizations, which receive payments from the government*.

The purpose of the Bill is to permit the Provincial Auditor to conduct value for money audits of organizations, corporations, associations, foundations, institutions and other bodies that receive transfer payments, directly or indirectly, from the Consolidated Revenue Fund or government agencies.

On November 21, 1996, Bill 89 passed Second Reading and was referred to the Standing Committee on General Government for further review.

As at the publication deadline for this Report, the above Bills had not yet been considered by the referenced committees.

OTHER COMMITTEE ACTIVITIES

CANADIAN COUNCIL OF PUBLIC ACCOUNTS COMMITTEES (CCPAC)

The Council consists of delegates of federal, provincial and territorial public accounts committees from across Canada. The Council meets at the same time and place as the annual Conference of Legislative Auditors (COLA) to discuss issues of current interest. The eighteenth annual meeting of the Council was held in Edmonton, Alberta from September 14 to 16, 1997. The annual CCPAC and COLA meetings also permit the delegations to participate in a joint session to discuss subjects of mutual interest to politicians and legislative auditors. The 1997 joint session with COLA was on the subject of *Improving the Management and Control of Public Resources*.

The Vice-Chair and the Clerk of the Ontario Public Accounts Committee represented the province at this year's meeting.



Exhibits

EXHIBIT ONE

Value for Money and Special Audits Conducted in 1996/97

MINISTRY AND AGENCY AUDITS

Attorney General

- Courts Administration Program

Citizenship, Culture and Recreation

- Culture Activity

Community and Social Services

- Child and Family Intervention Program
- Transfer Payment Agency Accountability and Governance
- Young Offender Services Program

Education and Training

- Ontario Student Assistance Program

Environment and Energy

- Conservation and Prevention Division

Finance

- Employer Health Tax

Health

- Mental Health Program - Community Based Services Activity
- Public Health Activity

Management Board Secretariat

- Employee Health Care Benefits

Ontario Housing Corporation and Metropolitan Toronto Housing Authority

- Capital Asset Management

Transportation

- Commercial Vehicle Safety and Regulation

SPECIAL AUDITS**REVIEWS FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS****Ministry of Community and Social Services**

- Audit of the report on comparative costs for facility-based versus community-based care for the same types of individuals

Ministry of Labour

- Audit of the service arrangement for the provision of internal audit services by the Ministry of Finance

EXHIBIT TWO

Agencies of the Crown

(I) AGENCIES WHOSE ACCOUNTS ARE AUDITED BY THE PROVINCIAL AUDITOR

Agricorp
Agricultural Rehabilitation and Development Directorate of Ontario
Alcoholism and Drug Addiction Research Foundation
Algonquin Forestry Authority
Centennial Centre of Science and Technology
Commission on Election Finances
Eastern Ontario Development Corporation
Egg Fund Board (December 31), Fund for Egg Producers
Election Act - Election Fees and Expenses
Environmental Compensation Corporation
Grain Financial Protection Board, Funds for Producers of Grain Corn, Soybeans and Canola
Innovation Ontario Corporation
Interim Gross Revenue Insurance Plan Program Account
Legal Aid Fund, Law Society of Upper Canada
Liquor Control Board of Ontario
Livestock Financial Protection Board, Fund for Livestock Producers
North Pickering Development Corporation
Northern Ontario Development Corporation
Northern Ontario Heritage Fund Corporation
Office of the Assembly
Office of the Environmental Commissioner
Office of the Information and Privacy Commissioner
Office of the Children's Lawyer

Office of the Ombudsman
Ontario Aerospace Corporation
Ontario Agricultural Museum
Ontario Cancer Treatment and Research Foundation
Ontario Clean Water Agency (December 31)
Ontario Development Corporation
Ontario Educational Communications Authority
Ontario Farm Products Marketing Commission, Fund for Milk and Cream Producers
Ontario Film Development Corporation
Ontario Financing Authority
Ontario Food Terminal Board
Ontario Heritage Foundation
Ontario Housing Corporation (December 31)
Ontario International Trade Corporation
Ontario Junior Farmer Establishment Loan Corporation
Ontario Lottery Corporation
Ontario Northland Transportation Commission (December 31)
Ontario Place Corporation
Ontario Racing Commission
Ontario Realty Corporation
Ontario Stock Yards Board (June 30)
Ontario Transportation Capital Corporation
Pension Commission of Ontario
Police Complaints Commissioner
Province of Ontario Council for the Arts
Provincial Judges Pension Fund, Provincial Judges Pension Board
Public Sector Job Security Fund, Public Sector Labour Market and Productivity Commission
Public Guardian and Trustee for the Province of Ontario
Tobacco Diversification Fund, Tobacco Diversification Committee

(II) AGENCIES WHOSE ACCOUNTS ARE AUDITED BY ANOTHER AUDITOR UNDER THE DIRECTION OF THE PROVINCIAL AUDITOR

Board of Community Mental Health Clinic, Guelph

Clarke Institute of Psychiatry

Niagara Parks Commission (October 31)

Ontario Cancer Institute

Ontario Mental Health Foundation

St. Clair Parkway Commission (December 31)

St. Lawrence Parks Commission

Toronto Area Transit Operating Authority

Workers' Compensation Board (December 31)

NOTES:

1. Dates in parentheses indicate fiscal periods ending on a date other than March 31.

2. Changes during the 1996/97 fiscal year:

Additions:

- Agricorp

Deletions:

- Crop Insurance Commission of Ontario
- Farm Income Stabilization Commission of Ontario
- Interim Waste Authority Ltd.
- Ontario Training and Adjustment Board
- Processing-Vegetable Financial Protection Board, Fund for Producers of Vegetables for Processing

3. Inactive agencies as at March 31, 1997:

- Ontario Deposit Insurance Corporation
- Ontario Telephone Development Corporation
- Ontario Waste Management Corporation

EXHIBIT THREE

Crown Controlled Corporations

CORPORATIONS WHOSE ACCOUNTS ARE AUDITED BY AN AUDITOR OTHER THAN THE PROVINCIAL AUDITOR, WITH FULL ACCESS BY THE PROVINCIAL AUDITOR TO AUDIT REPORTS, WORKING PAPERS AND OTHER RELATED DOCUMENTS

Art Gallery of Ontario Crown Foundation
Baycrest Hospital Crown Foundation
Big Thunder Sports Park Ltd.
Board of Funeral Services
Brock University Foundation
Carleton University Foundation
CIAR Foundation (Canadian Institute for Advanced Research)
Canadian Opera Company Crown Foundation
Canadian Stage Company Crown Foundation
Dairy Farmers of Ontario
Deposit Insurance Corporation of Ontario
Education Quality and Accountability Office
Foundation at Queen's University at Kingston
Grand River Hospital Crown Foundation
Lakehead University Foundation
Laurentian University of Sudbury Foundation
McMaster University Foundation
McMichael Canadian Art Collection
Metropolitan Toronto Convention Centre Corporation
Moosonee Development Area Board

Mount Sinai Hospital Crown Foundation
National Ballet of Canada Crown Foundation
Nipissing University Foundation
North York General Hospital Crown Foundation
Ontario Casino Corporation
Ontario Centre for Resource Machinery Technology
Ontario Energy Corporation
Ontario Foundation for the Arts
Ontario Investment Service Inc.
Ontario Hydro
Ontario Mortgage Corporation
Ontario Municipal Employees Retirement Board
Ontario Pension Board
Ontario Trillium Foundation
Ortech Corporation
Ottawa Congress Centre
Province of Ontario Immigrant Investor Infrastructure Fund Ltd.
Royal Botanical Gardens Crown Foundation
Royal Ontario Museum
Royal Ontario Museum Crown Foundation
Ryerson Polytechnic University Foundation
Science North
Shaw Festival Crown Foundation
St. Michael's Hospital Crown Foundation
Stadium Corporation of Ontario Limited
Stratford Festival Crown Foundation
Sunnybrook Hospital Crown Foundation
Toronto East General Hospital Crown Foundation
Toronto Hospital Crown Foundation
Toronto Islands Residential Community Trust Corporation
Toronto Symphony Orchestra Crown Foundation
Travel Industry Compensation Fund Corporation
Trent University Foundation

University of Guelph Foundation
University of Ottawa Foundation
University of Toronto Foundation
University of Waterloo Foundation
University of Western Ontario Foundation
University of Windsor Foundation
Waterfront Regeneration Trust Agency
Wilfrid Laurier University Foundation
Women's College and Wellesley Central Crown Foundation
York University Foundation

NOTES:

Changes during the 1996/97 fiscal year:

Additions:

- Art Gallery of Ontario Crown Foundation
- Baycrest Hospital Crown Foundation
- CIAR Foundation (Canadian Institute for Advanced Research)
- Canadian Opera Company Crown Foundation
- Canadian Stage Company Crown Foundation
- Education Quality and Accountability Office
- Grand River Hospital Crown Foundation
- Mount Sinai Hospital Crown Foundation
- National Ballet of Canada Crown Foundation
- North York General Hospital Crown Foundation
- Ontario Foundation for the Arts
- Province of Ontario Immigrant Investor Infrastructure Fund Ltd.
- Royal Botanical Gardens Crown Foundation
- Royal Ontario Museum Crown Foundation
- Shaw Festival Crown Foundation
- St. Michael's Hospital Crown Foundation
- Stratford Festival Crown Foundation
- Sunnybrook Hospital Crown Foundation
- Toronto East General Hospital Crown Foundation
- Toronto Hospital Crown Foundation
- Toronto Symphony Orchestra Crown Foundation
- Women's College and Wellesley Central Crown Foundation

Deletions:

- Board of Governors of The Ontario Institute for Studies in Education
 - Ontario Teachers' Pension Plan Board
 - Teranet Land Information Services Inc.
-

EXHIBIT FOUR

Treasury Board Orders

AMOUNTS AUTHORIZED AND EXPENDED THEREUNDER YEAR ENDED MARCH 31, 1997

Ministry	Date of Order	Authorized	Expended
		\$	\$
Agriculture, Food and Rural Affairs	Jan. 28, 1997	25,823,000	24,533,020
	Apr. 8, 1997	<u>10,257,400</u>	<u>8,762,238</u>
		<u>36,080,400</u>	<u>33,295,258</u>
Attorney General	Sept. 3, 1996	3,560,200	3,560,200
	Dec. 3, 1996	643,000	643,000
	Dec. 17, 1996	1,943,400	1,306,477
	Feb. 25, 1997	7,800,000	7,549,804
	Mar. 25, 1997	1,508,700	1,278,839
	Apr. 1, 1997	19,081,900	18,324,894
	Apr. 15, 1997	<u>2,459,400</u>	<u>2,079,497</u>
		<u>36,996,600</u>	<u>34,742,711</u>
Citizenship, Culture and Recreation	Apr. 15, 1997	<u>11,833,300</u>	<u>7,524,104</u>
Community and Social Services	Apr. 15, 1997	<u>3,000,000</u>	<u>53,237</u>
Consumer and Commercial Relations	Apr. 8, 1997	<u>4,953,500</u>	<u>2,097,559</u>
Economic Development, Trade and Tourism	Apr. 8, 1997	<u>8,700,000</u>	<u>8,324,808</u>
Education and Training	Dec. 17, 1996	7,164,600	7,164,600
	Feb. 25, 1997	326,457,700	287,165,368
	Apr. 15, 1997	<u>8,036,400</u>	<u>822,979</u>
		<u>341,658,700</u>	<u>295,152,947</u>
Environment and Energy	Mar. 4, 1997	7,415,800	6,472,667
	Mar. 25, 1997	<u>12,939,700</u>	<u>11,369,063</u>
		<u>20,355,500</u>	<u>17,841,730</u>

Ministry	Date of Order	Authorized	Expended
		\$	\$
Finance	Dec. 10, 1996	9,643,800	9,643,800
	Jan. 21, 1997	9,237,400	9,237,400
	Feb. 18, 1997	<u>36,122,800</u>	<u>35,626,045</u>
		<u>55,004,000</u>	<u>54,507,245</u>
Office of Francophone Affairs	Apr. 15, 1997	<u>156,400</u>	<u>40,689</u>
Health	Feb. 18, 1997	107,545,900	95,368,742
	Apr. 8, 1997	433,047,900	428,314,678
	Apr. 22, 1997	<u>88,133,700</u>	<u>74,406,726</u>
		<u>628,727,500</u>	<u>598,090,146</u>
Labour	Dec. 10, 1996	6,741,300	4,470,852
	Feb. 11, 1997	8,634,000	5,677,307
	Mar. 25, 1997	<u>764,100</u>	<u>389,843</u>
		<u>16,139,400</u>	<u>10,538,002</u>
Management Board Secretariat	Apr. 22, 1997	<u>52,247,700</u>	<u>39,396,088</u>
Municipal Affairs and Housing	Dec. 3, 1996	463,400	463,400
	Apr. 15, 1997	<u>27,026,700</u>	<u>21,138,652</u>
		<u>27,490,100</u>	<u>21,602,052</u>
Ontario Native Affairs Secretariat	Feb. 25, 1997	<u>5,600,000</u>	<u>3,858,573</u>
Natural Resources	Sept. 10, 1996	40,000,000	40,000,000
	Feb. 4, 1997	67,263,000	55,339,693
	Apr. 8, 1997	<u>1,900,100</u>	<u>1,703,306</u>
		<u>109,163,100</u>	<u>97,042,999</u>
Northern Development and Mines	Mar. 18, 1997	<u>3,084,000</u>	<u>3,058,101</u>
Solicitor General and Correctional Services	Nov. 26, 1996	2,093,000	2,051,139
	Apr. 15, 1997	<u>57,730,000</u>	<u>57,465,882</u>
		<u>59,823,000</u>	<u>59,517,021</u>
Transportation	Mar. 4, 1997	20,000,000	20,000,000
	Mar. 25, 1997	<u>138,418,600</u>	<u>103,867,240</u>
		<u>158,418,600</u>	<u>123,867,240</u>
Total Treasury Board Orders		<u>1,579,431,800</u>	<u>1,410,550,510</u>

EXHIBIT FIVE

Extracts from the *Audit Act*

R.S.O. 1990, Chapter A.35

Definitions

1. In this Act,

“agency of the Crown” means an association, authority, board, commission, corporation, council, foundation, institution, organization or other body,

- (a) whose accounts the Auditor is appointed to audit by its shareholders or by its board of management, board of directors or other governing body,
- (b) whose accounts are audited by the Auditor under any other Act or whose accounts the Auditor is appointed by the Lieutenant Governor in Council to audit,
- (c) whose accounts are audited by an auditor, other than the Auditor, appointed by the Lieutenant Governor in Council, or
- (d) the audit of the accounts of which the Auditor is required to direct or review or in respect of which the auditor’s report and the working papers used in the preparation of the auditor’s statement are required to be made available to the Auditor under any other Act,

but does not include one that the *Crown Agency Act* states is not affected by that Act or that any other Act states is not a Crown agency within the meaning or for the purposes of the *Crown Agency Act*;

“Auditor” means the Provincial Auditor;

“Crown controlled corporation” means a corporation that is not an agency of the Crown and having 50 per cent or more of its issued and outstanding shares vested in Her Majesty in right of Ontario or having the appointment of a majority of its board of directors made or approved by the Lieutenant Governor in Council;

“inspection audit” means an examination of accounting records;

“public money” has the same meaning as in the *Financial Administration Act*.

Audit of
Consolidated
Revenue Fund

9.—(1) The Auditor shall audit, on behalf of the Assembly and in such manner as the Auditor considers necessary, the accounts and records of the

	receipt and disbursement of public money forming part of the Consolidated Revenue Fund whether held in trust or otherwise.
Audit of agencies of the Crown	(2) Where the accounts and financial transactions of an agency of the Crown are not audited by another auditor, the Auditor shall perform the audit, and, despite any other Act, where the accounts and financial transactions of an agency of the Crown are audited by another auditor, the audit shall be performed under the direction of the Auditor and such other auditor shall report to the Auditor.
Audit of Crown controlled corporations	<p>(3) Where the accounts of a Crown controlled corporation are audited other than by the Auditor, the person or persons performing the audit,</p> <p>(a) shall deliver to the Auditor forthwith after completion of the audit a copy of their report of their findings and their recommendations to the management and a copy of the audited financial statements of the corporation;</p> <p>(b) shall make available forthwith to the Auditor, when so requested by the Auditor, all working papers, reports, schedules and other documents in respect of the audit or in respect of any other audit of the corporation specified in the request;</p> <p>(c) shall provide forthwith to the Auditor, when so requested by the Auditor, a full explanation of work performed, tests and examinations made and the results obtained, and any other information within the knowledge of such person or persons in respect of the corporation.</p>
Additional examination and investigation	(4) Where the Auditor is of the opinion that any information, explanation or document that is provided, made available or delivered to him or her by the auditor or auditors referred to in subsection (2) or (3) is insufficient, the Auditor may conduct or cause to be conducted such additional examination and investigation of the records and operations of the agency or corporation as the Auditor considers necessary.
Information and access to records	10. Every ministry of the public service, every agency of the Crown and every Crown controlled corporation shall furnish the Auditor with such information regarding its powers, duties, activities, organization, financial transactions and methods of business as the Auditor from time to time requires, and the Auditor shall be given access to all books, accounts, financial records, reports, files and all other papers, things or property belonging to or in use by the ministry, agency of the Crown or Crown controlled corporation and necessary to the performance of the duties of the Auditor under this Act.
Annual report	12.—(1) The Auditor shall report annually to the Speaker of the Assembly after each fiscal year is closed and the Public Accounts are laid before the Assembly, but not later than the 31st day of December in each year unless the Public Accounts are not laid before the Assembly by that day, and may make a special report to the Speaker at any time on any matter

that in the opinion of the Auditor should not be deferred until the annual report, and the Speaker shall lay each such report before the Assembly forthwith if it is in session or, if not, not later than the tenth day of the next session.

Contents of
report

- (2) In the annual report in respect of each fiscal year, the Auditor shall report on,
- (a) the work of the Office of the Auditor, and on whether in carrying on the work of the Office the Auditor received all the information and explanations required;
 - (b) the examination of accounts of receipts and disbursements of public money;
 - (c) the examination of the statements of Assets and Liabilities, the Consolidated Revenue Fund and Revenue and Expenditure as reported in the Public Accounts, and shall express an opinion as to whether the statements present fairly the financial position of the Province, the results of its operations and the changes in its financial position in accordance with the accounting principles stated in the Public Accounts applied on a basis consistent with that of the preceding fiscal year together with any reservations the Auditor may have;
 - (d) all special warrants issued to authorize payments, stating the date of each special warrant, the amount authorized and the amount expended;
 - (e) all orders of the Management Board of Cabinet made to authorize payments in excess of appropriations, stating the date of each order, the amount authorized and the amount expended;
 - (f) such matters as, in the opinion of the Auditor, should be brought to the attention of the Assembly including, without limiting the generality of the foregoing, any matter related to the audit of agencies of the Crown or Crown controlled corporations or any cases where the Auditor has observed that,
 - (i) accounts were not properly kept or public money was not fully accounted for,
 - (ii) essential records were not maintained or the rules and procedures applied were not sufficient to safeguard and control public property or to effectively check the assessment, collection and proper allocation of revenue or to ensure that expenditures were made only as authorized,
 - (iii) money was expended other than for the purposes for which it was appropriated,

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- (iv) money was expended without due regard to economy and efficiency, or
 - (v) where procedures could be used to measure and report on the effectiveness of programs, the procedures were not established or, in the opinion of the Auditor, the established procedures were not satisfactory.

Inspection audit

13.—(1) The Auditor may perform an inspection audit in respect of a payment in the form of a grant from the Consolidated Revenue Fund or an agency of the Crown and may require a recipient of such a payment to prepare and to submit to the Auditor a financial statement that sets out the details of the disposition of the payment by the recipient.

Attendance at
standing Public
Accounts
Committee of the
Assembly

16. At the request of the standing Public Accounts Committee of the Assembly, the Auditor and any member of the Office of the Auditor designated by the Auditor shall attend at the meetings of the committee in order,

- (a) to assist the committee in planning the agenda for review by the committee of the Public Accounts and the annual report of the Auditor; and
- (b) to assist the committee during its review of the Public Accounts and the annual report of the Auditor,

and the Auditor shall examine into and report on any matter referred to him or her in respect of the Public Accounts by a resolution of the committee.

Special
assignments

17. The Auditor shall perform such special assignments as may be required by the Assembly, the standing Public Accounts Committee of the Assembly, by resolution of the committee, or by a minister of the Crown in right of Ontario but such special assignments shall not take precedence over the other duties of the Auditor under this Act and the Auditor may decline an assignment by a minister of the Crown that, in the opinion of the Auditor, might conflict with the other duties of the Auditor.

Audit working
papers

19. Audit working papers of the Office of the Auditor shall not be laid before the Assembly or any committee of the Assembly.



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